THE IMPERIAL GOVERNMENT OF IRAN

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FOURTH NATIONAL DEVELOPMENT PLAN

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1968–1972

Iran

PLAN ORGANIZATION
TEHRAN IRAN
1968

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INTRODUCTION

Iran's Fourth Development Plan may be considered one of the most glorious and important transformations in the modern history of Iran. For during the next five years of change and development the people of Iran will enter a new stage of continued and sustained economic growth, and, as a result of the solid economic foundations which were laid down during the course of the previous Plans, the entire population will benefit to a greater degree than ever before from the fruits of the rapid increase in the national product, and will enjoy higher standards of comfort and prosperity.

In terms of the acceleration of the rate of industrial growth and the wider application of social welfare measures, the Fourth Plan may be taken as a turning point in the history of Iran. In fact, never before in our country have so many favourable conditions coincided for development and progress. Among all Asian countries, Iran today enjoys an exceptionally fine political climate and an unprecedented stability and order in public affairs. Internationally, Iran's situation is such that the pursuit of an independent national policy has been made possible. In the new social order of Iran different groups and classes are striding towards common ideals and objectives under the banner of unity and harmony and in a spirit of co-operation and mutual assistance. The economic climate is such that confidence has been developed among the public as well as among private investors, resulting in continued growth and development. Progressive social programmes, based on sound thinking and sound ideals, have provided a firm foundation for future development. To sum up, all the factors required for social, economic and cultural development have been brought together at this point of history in an exceptional manner. It is fitting that the Fourth Development Plan, in these favourable circumstances, should be the means for the attainment of the maximum national growth and a rapid increase in the standard of living, and that the nation's long-sought hopes and goals should be realized so rapidly.

One of the chief features of the Fourth Plan is that while special attention will be paid to industry, the growth and development of agriculture, increased incomes for farmers and the introduction of modern living to the rural population will not be ignored. The propagation of modern methods of cultivation and irrigation, the establishment of large farming units, co-operative societies and joint-stock farming corporations, and improvements in the distribution and marketing of agricultural products will provide a firm foundation for supplying the food requirements of a constantly increasing population and the raw materials required for industry and raising the volume and quality of agricultural exports. Maximum efforts will also be made in the Fourth Plan for the preservation of the country's natural resources and their proper and reasonable exploitation, so that not only the present generation, but also generations to come, will be able to benefit from them.

Another feature of the Fourth Plan is the stress laid on the question of public welfare and the extension of social services to all classes of society, especially the lower-income groups, and the guarantee of universal employment. As a result of the implementation of the Plan unemployment will decline to a minimum and under-employment will be radically reduced. Means will be provided for improving and rehabilitating the skills of most of the newly employed population, as well as of some of those already employed. During this Plan, as was the case in earlier Plans, efforts will be directed towards the equitable distribution of income among the various social classes and the extension of social services such as welfare, housing and environmental reconstruction, especially to protect the interests of low-income groups, so that purchasing power and participation in saving and investment expand among more of the population, which will in turn result in a more rapid rate of economic growth.

Another major feature of the Fourth Plan is the introduction of scientific methods, not only in industrial and productive activities, but in other fields, including social activities, as well. By introducing methods aimed at increasing the rate of return in agriculture, industry and other activities and the wider application of scientific knowledge on the part of all segments of society, especially the productive segment, and carrying out scientific and applied research, especially in fields that will accelerate and intensify economic growth, better results may be expected of investments already made and to be made in the future.

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A further important characteristic of the Fourth Plan is the introduction of economies of scale for the manufacture, distribution and sale of goods. In the Plan, special consideration will be given to the amalgamation of capital for the formation of joint-stock companies in the industrial and agricultural sectors and the mobilization of small savings wherever real economies will result and the public will benefit. Large-scale measures will also be employed in the field of marketing, both at home and abroad, and together with the steps which have already been taken towards the expansion abroad of certain types of investment, such as the oil industry, efforts will be made to locate new markets all over the world for Iranian export goods especially for the rapidly increasing range of industrial products. These measures also include the initiation and expansion of commercial and economic co-operation with countries in the Middle East and the large Asian region. In the course of the Third Plan, Iran has established commercial and economic relations with Western countries, EEC countries, Socialist and neighbouring countries, which has naturally done much to open up large markets for its products. These relationships will be strengthened and expanded during the Fourth Plan, during which time Iran will be transformed from an exporter of raw materials to an exporter of semi-finished and industrial goods.

These basic and important transformations will only take place in their fullest form if the Government coordinates its organizational structure and administrative and executive procedures with them, and if planning discipline and order govern all its decisions and actions, and when the principle of decentralization is observed. The scope and magnitude of the Fourth Plan necessitate the participation of the whole nation and the mobilization of all national forces, potentials and resources for its success. The task also requires the abandonment of outmoded administrative procedures and the decentralization of administration and programme implementation in the various regions of the country. During the Fourth Plan, far-reaching reforms will be carried out in organizational structure, administrative systems and procedures, and in addition to the delegation of more responsibility and authority to local administrative officials, the public itself will have to participate more fully in productive investments and social activities while the efforts of the central government will be directed more to maintaining public order, establishing an infrastructure for economic activity, facilitating private initiative, protecting the rights of the individual, planning, determining overall policies, establishing standards and regulations, co-ordinating and directing individual endeavours in the national interest.

A nation's most important asset is its human resources. Educated, well-trained individuals are among the most valuable sources of growth and dynamism in any society. In addition to those in Iran who already possess literacy, knowledge and skills, or who will acquire them in future programmes, the number of young Iranians who are completing their education or acquiring scientific and technical experience abroad is such a valuable asset that every effort will be made to bring them back home and utilize their specialized knowledge and technical experience. Measures will be taken to prevent the loss of skilled and specialized personnel to other countries, so that Iran does not suffer from the problem that most developing countries and many advanced countries are experiencing. Efforts must be made to encourage and induce Iranian students both at home and abroad to study and undergo on-the-job training in fields which are most needed in the country, and appropriate measures should be taken to utilize their advanced and specialized knowledge.

The important projects which are being carried out to revolutionize the educational system promise to create a more harmonious relationship between the system and the conditions and exigencies of a progressive society and a developing economy, and to develop new attitudes and patterns of behaviour in younger generations.

It is hoped that with the execution of the Fourth Plan the foundations for economic and social development will be so solidly laid that poverty and ignorance are completely eradicated in Iran, and that future generations will take their rightful place among the prosperous and progressive nations of the world.

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PART 1

THE ECONOMY GENERAL

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and Control of Certain [illegible]

CHAPTER 22 [illegible]

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PART 1

THE ECONOMY – GENERAL

EXPLANATORY NOTES

- ☐ The Fourth Five-Year Plan covers the period from 21st March 1968 to 20th March 1973.
- ☐ In some of the tables in the Plan, figures do not necessarily add up to totals because of rounding.
- ☐ Rials 75.50 = U.S. $1
- ☐ One billion = one thousand million

CHAPTER 1

ECONOMIC AND SOCIAL CHANGES IN IRAN IN THE PAST

INTRODUCTION

1. Before establishing the general policies of the Fourth Plan, it is necessary to carry out a comprehensive analysis of the changes and socio-economic characteristics of Iran in the recent past. While identifying past trends, this analysis will also facilitate the identification of specific socio-economic problems of Iran so that allowance may be made for them in drawing up development plans.

Since the years 1338[1] and 1344 were both years of relative prosperity, an analysis of the economic changes during this period is a rough indication of the general economic trends in the country, and since the statistics and information available for this period are better and more complete than those available for the years prior to 1338, the fundamental socio-economic changes in Iran over this period will first be analysed in this chapter, and then the achievements and problems of the Third Plan will be subjected to special scrutiny[2].

POPULATION OF IRAN

2. According to the census of 1345 the population of Iran has reached 25.8 million and is increasing rapidly. Over the past years the average annual population increase in Iran has been about 2.6 per cent, or about 600,000. The annual rate of population increase in most European countries is about 1 per cent and North America about 1.6 per cent, while in the developing countries it is estimated at between 2 and 3 per cent.

3. Another feature of the population of Iran is its scattered nature. According to the census of 1335, the relative density of population was 12 per square kilometre (with a maximum of 45 in the Central Province and a minimum of 2.4 in the province of Sistan and Baluchistan). According to the census of 1345, the relative density of population has increased to about 15 per square kilometre and it is expected to reach 18 per square kilometre by the end of the Fourth Plan.

The density of population to land under cultivation, excluding fallow land, which in 1345 amounted to about 6.6 million hectares, was 3.6 per hectare or 390 per square kilometre.

4. A further outstanding characteristic of the population of Iran is the high proportion of young people it contains. Over the period of 1335 - 1345, there was an appreciable tendency towards an increased proportion of young people. Approximately 55 per cent of the population of Iran is under 20 years of age. It is also necessary to note here that in general, the ratio of the active to total population in advanced countries is about 50 per cent, whereas, according to the preliminary results of the general census of 1345 based on a 1 per cent sample of settled population, this ratio is only about 28 per cent in Iran. As a result, the ratio of dependants is high, primarily because of the present low ratio of only 13 per cent active female population to total active population.

TABLE NO. 1 — DISTRIBUTION OF AGE GROUPS IN 1335 AND 1345

Age groups	1335	1345
0-19	49.7 per cent	55 per cent
20-64	46.3 per cent	41 per cent
65 and over	4 per cent	4 per cent

5. Migration from rural to urban areas is also one of the notable characteristics of recent years. The annual increase of population in urban areas has averaged about 4.4 per cent and in rural areas about 1.7 per cent. The main destination of these migrations has been

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[1] The Persian solar calendar is to be used throughout. To convert to the Julian calendar add 621. The Persian year runs from March 21st to March 20th of the following Julian year.

[2] Wherever figures for the year 1345 are available, statistical series for the years 1338-1345 have been used.

Tehran, which has become the most important pole of population attraction[1].

6. The Gross National Product of Iran at 1344 prices increased from Rials 307 billion in 1338 to Rials 481 billion in 1344, a total increase of 56 per cent and an average annual increase of 6.6 per cent over the period.

Gross per capita production increased from Rials 14,200 ($187) in 1338 to Rials 18,500 ($244) in 1345, an average annual increase of about 3.8 per cent.

During this period the national income of Iran increased from Rials 267 billion to approximately Rials 413 billion and per capita income increased from Rials 12,300 ($162) to Rials 15,900 ($210), an annual increase in per capita income of about 3.7 per cent. (Table 2)

7. From the point of view of the economic structure of the country, the most important change which has taken place during the period under review has been the relatively rapid decrease in the contribution of the agriculture sector to Gross National Product and the relatively rapid increase in the contribution of the industry and mining and oil sectors. (Table 3)

TABLE 2 — NATIONAL AND PER CAPITA INCOME OF IRAN FROM 1338 TO 1345 (AT 1344 FIXED PRICES)

	1338	1339	1340	1341	1342	1343	1344	1345	Average annual growth (per cent)
1. Gross Domestic Product at market prices (Billions of Rials)	320.7	348.2	360.9	374.6	400.4	416.1	476.1	523.8	7.2
Index: (1338 = 100)	100.0	108.6	112.5	116.8	124.8	129.7	148.4	163.3	
2. Gross National Product at market prices (Billions of Rials)	307.4	333.3	341.3	350.0	374.1	387.9	437.3	480.8	6.6
Index: (1338 = 100)	100.0	108.4	111.0	113.8	121.7	126.2	142.2	156.4	
3. National income at market prices (Billions of Rials)	266.9	289.8	295.0	301.6	322.0	334.2	376.7	412.8	6.4
Index: (1338 = 100)	100.0	108.6	110.5	113.0	120.6	125.2	141.1	154.7	
4. Population of Iran (millions)	21.7	22.2	22.8	23.4	24.0	24.7	25.3	26.0	2.6
5. Per Capita income (Thousands of Rials)	12.3	13.0	12.9	12.9	13.4	13.5	14.9	15.9	3.7
Index: (1338 = 100)	100.0	105.7	104.9	104.9	108.9	109.7	121.1	129.3	
6. Gross Per Capita Production (Thousands of Rials)	14.2	15.0	15.0	15.0	15.6	15.7	17.3	18.5	3.8
Index: (1338 = 100)	100.0	105.6	105.6	105.6	109.9	110.6	121.8	130.3	

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[1] It is worth noting that Abadan, which after Tehran used to be one of the chief centres of population attraction, has in recent years become a net exporter of population.

TABLE 3 — PRODUCTION CONTRIBUTION OF MAIN ECONOMIC SECTORS TO GROSS NATIONAL PRODUCT IN 1338, 1341 AND 1345 AT 1344 PRICES
(BILLIONS OF RIALS)

	1338		1341		1345	
	per cent	value	per cent	value	per cent	value
1. Agriculture and animal husbandry	34.3	98.5	30.9	101.0	24.3	108.4
2. Industry and mining	8.7	25.0	12.0	39.1	14.2	63.4
3. Construction	5.2	14.9	5.3	17.5	6.1	27.2
4. Water and Power	0.7	2.0	0.9	3.1	1.1	5.1
5. Oil (Iran's share)	10.6	30.6	11.6	38.0	13.1	58.4
6. Other sectors	40.5	116.7	39.3	128.3	41.2	183.3
7. Gross National Product (at factor prices)	100.0	287.7	100.0	327.0	100.0	445.8
8. Indirect taxation		19.7		23.0		35.0
9. Gross National Product (at market prices)		307.4		350.0		480.8

TABLE 4 — PRODUCTION CONTRIBUTION OF MAJOR ECONOMIC SECTORS TO GROSS DOMESTIC PRODUCT IN 1338, 1341 AND 1345 AT 1344 MARKET PRICES
(BILLIONS OF RIALS)

	1338		1341		1345	
	per cent	value	per cent	value	per cent	value
1. Agriculture and animal husbandry	30.8	98.7	27.0	101.2	20.8	108.8
2. Industry and mining	9.3	29.9	12.0	44.8	14.9	72.1
3. Construction	5.7	18.2	5.7	21.4	6.3	33.1
4. Water and power	0.6	2.0	0.8	3.1	1.0	5.1
5. Oil	13.7	43.6	16.1	60.2	18.4	96.4
6. Other sectors	39.9	128.0	38.4	143.9	39.7	208.3
7. Gross Domestic Product (at market prices)	100.0	320.7	100.0	374.6	100.0	523.8

If the overall composition of the national economy is considered in terms of Gross Domestic Product, the contribution of major economic sectors is as in Table 4.

In terms of the production growth of individual sectors the most rapid rates have been, in order of magnitude, those of industry and mining - water and power - and oil. The agriculture sector, on the other hand, has achieved the slowest rate of growth, which has resulted in Iran's further dependence on foreign countries for the importation of agricultural products. (Tables 5 and 6)

TABLE 5 — INDEX OF CHANGES IN GROSS NATIONAL PRODUCT IN 1341 AND 1345 COMPARED WITH 1338, AT 1344 PRICES, BY MAJOR SECTORS

	1338	1341	1345	Average annual growth over 1338 (per cent)
1. Agriculture and animal husbandry	100.0	102,5	110.0	1.4
2. Industry and mining	100.0	156.4	253.6	14.2
3. Construction	100.0	117.4	182.5	9.0
4. Water and power	100.0	155.0	255.0	14.3
5. Oil (Iran's share)	100.0	124.2	190.8	9.7
6. Other sectors	100.0	109.9	157.1	6.7
7. Gross National Product, at factor prices.	100.0	113.7	154.9	6.4
8. Gross National Product, at market prices	100.0	113.9	156.4	6.6

TABLE 6 — INDEX OF CHANGES IN GROSS DOMESTIC PRODUCT IN 1341 AND 1345 COMPARED WITH 1338 AT 1344 MARKET PRICES, BY MAJOR SECTORS

	1338	1341	1345	Average annual growth over the year 1338 (per cent)
1. Agriculture and animal husbandry	100.0	102.5	110.2	1.4
2. Industry and mining	100.0	149.8	241.1	13.4
3. Construction	100.0	117.6	181.9	8.9
4. Water and power	100.0	155.0	255.0	14.3
5. Oil	100.0	137.1	219.6	11.9
6. Other sectors	100.0	112.4	162.7	7.2
7. Gross Domestic Product (at market prices)	100.0	116.8	163.3	7.2

9. Fluctuations in the rate of investment during the years 1338 to 1345 clearly reflect periods of economic recession and economic activity. Thus in 1340, 1341 and 1342, when the country was undergoing an economic recession, the volume of investment decreased in comparison with previous years and in 1341, which was the lowest point of the recession, investment reached its lowest level. From then on, however, with the revival of economic activity, investment began to pick up. The average ratio of fixed domestic investment to Gross Domestic Product during this period was 16.8 per cent whereas in 1339, at the peak of economic activity, the ratio was about 20 per cent, declining to 13.1 per cent in 1341. Thereafter, however, there was a steady increase in the ratio of investment. As Table 7 shows, fluctuations in investment are the best indicator of the degree of economic activity in the country.

GROSS DOMESTIC PRODUCT AND GROSS NATIONAL PRODUCT IN 1338, 1341 AND 1345 BY MAJOR ECONOMIC SECTORS AT 1344 PRICES

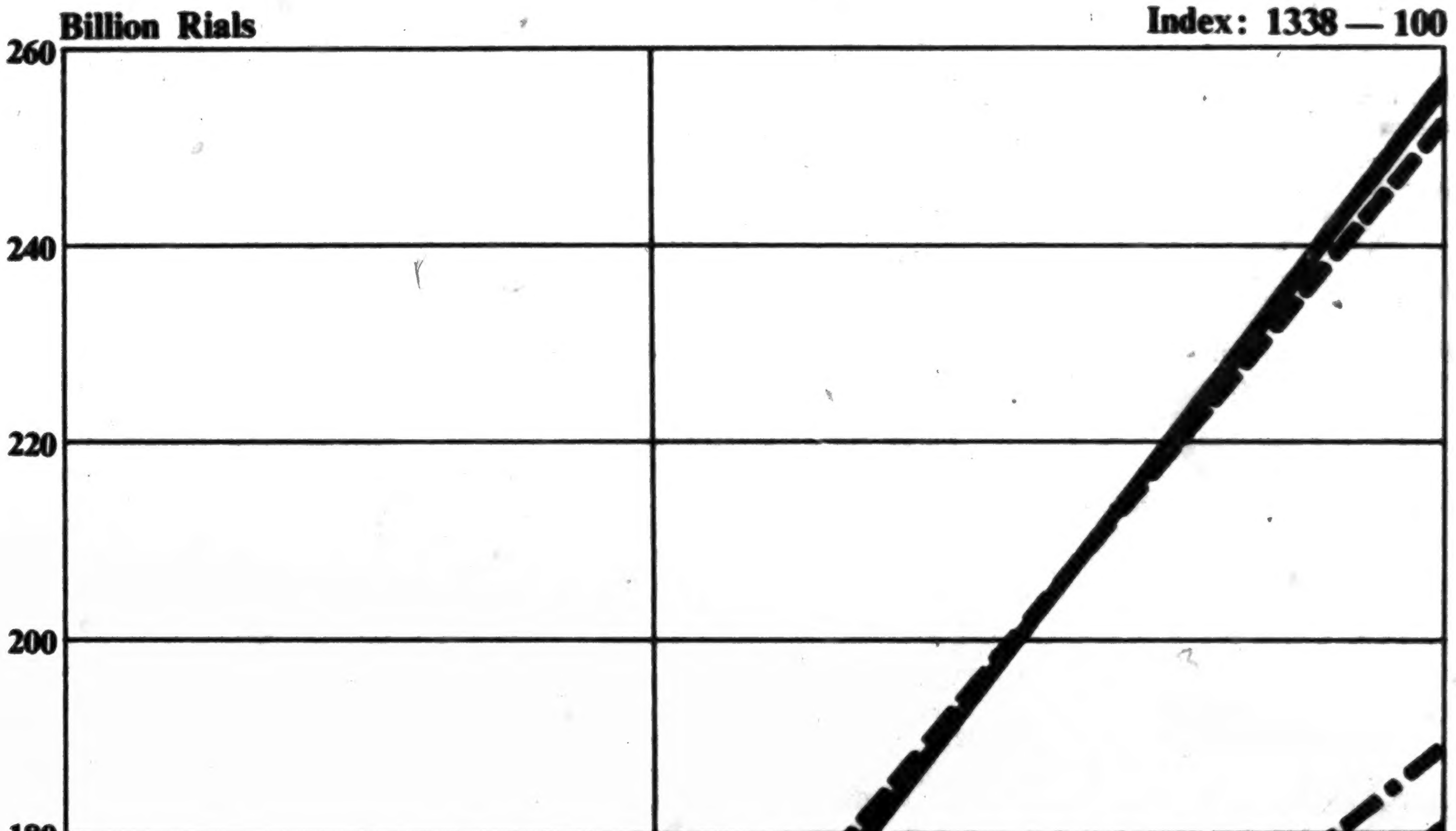


TABLE 7 — INVESTMENT AND GROSS DOMESTIC PRODUCT AT 1344 FIXED PRICES (BILLIONS OF RIALS)

	1338	1339	1340	1341	1342	1343	1344	1345
1. Fixed Domestic Investment	60.1	69.1	58.6	48.7	58.4	65.3	83.8	95.0
2. Gross Domestic Product	320.7	348.2	360.9	374.6	400.4	416.1	476.1	523.8
3. Ratio of Fixed Domestic Investment to Gross Domestic Product *	18.7	19.8	16.3	13.1	14.7	15.8	17.8	18.3

* Average: 16.8 per cent

TABLE 8 — INVESTMENT BY THE PUBLIC SECTOR AND THE PRIVATE SECTOR AT 1344 PRICES (BILLIONS OF RIALS)

Year	Total Fixed Investment	Public Sector Investment		Private Sector Investment	
		as Amount	as Percentage	as Amount	as Percentage
1338	60.1	20.3	33.7	39.8	66.3
1339	69.1	19.6	28.3	49.5	71.7
1340	58.6	18.9	32.3	39.7	67.7
1341	48.7	16.1	33.0	32.6	67.0
1342	58.4	18.9	32.4	39.5	67.6
1343	65.3	21.0	32.1	44.3	67.9
1344	83.8	35.8	42.7	48.0	57.3
1345	95.0	42.8	45.1	52.2	54.9

10. With regard to the respective contribution of the public sector and the private sector to fixed investment during the period under review, that of the private sector was, up to 1343, twice that of the public sector. From 1344 onwards, however, when the Government's income for development increased and the scope of executive agencies for implementing development projects also increased, the share of the public sector in investment likewise grew, and in 1345 it reached 45 per cent of all investment. (Table 8)

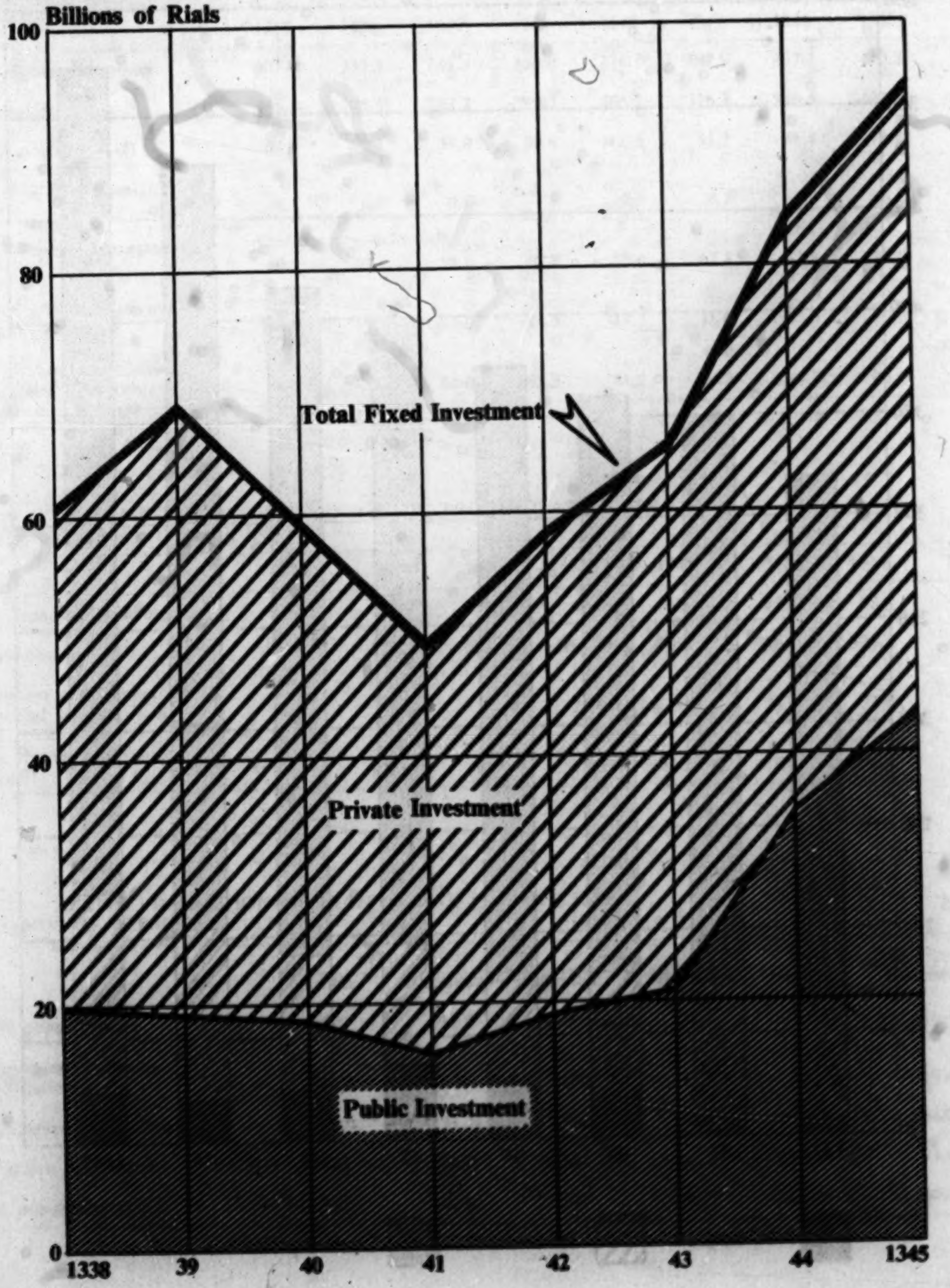
11. During the period under review, about 83.5 per cent of Gross National Product was consumed and 16.5 per cent was saved. As indicated in Table 9, the volume of saving utilized internally was affected by the level of investment and the use of foreign resources. The saving potential throughout the period was not fully exploited. Thus, in 1344 and 1345, years of peak economic activity, the ratio of investment to Gross National Product was in fact lower than in 1342, the year of extreme economic recession. It can be ascertained, therefore, that the potential of internal saving is greater than the actual level of saving during the past three years, and that 18 to 19 per cent of Gross National Product, the highest ratio observed in the past, is an approximate indication of the tendency towards domestic saving during this period.

The ways in which Gross Domestic Product has been consumed during the period under review can therefore be summarized in Table 10.

EMPLOYMENT

12. Despite a relatively rapid increase in Gross National Product during the period 1335 - 43, the number of employed personnel did not noticeably increase. The main reasons for this were, first, the economic recession in 1339 - 1342 which led to a reduction in

FIXED INVESTMENT BY PUBLIC & PRIVATE SECTORS AT 1344 PRICES



CONSUMPTION OF GROSS DOMESTIC PRODUCT

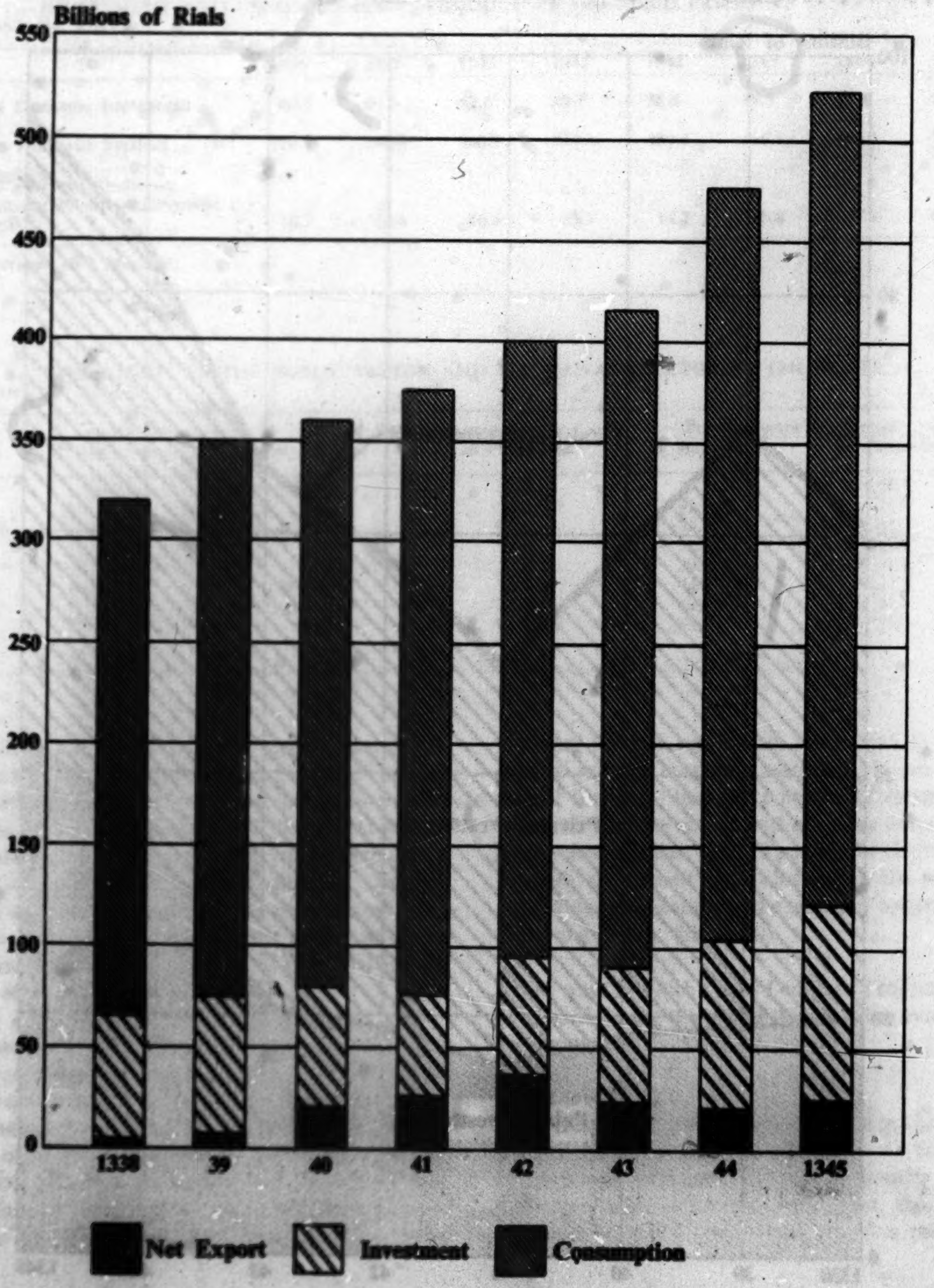


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TABLE 9 — SOURCES OF FIXED DOMESTIC INVESTMENT AT 1344 FIXED PRICES (BILLIONS OF RIALS)

	1338	1339	1340	1341	1342	1343	1344	1345	
1. Gross National Product	307.4	333.3	341.3	350.0	374.1	387.9	437.3	480.8	
2. Consumption	255.5	272.5	283.2	299.3	305.7	326.7	370.5	402.4	
3. Domestic saving (1-2)	52.0	60.8	58.0	50.6	68.3	61.2	66.8	78.4	
4. Net inflow from foreign resources	8.1	8.3	0.6	1.9	9.9	4.1	17.0	16.6	
5. Fixed Domestic Investment (3-4)	60.1	69.1	58.6	48.7	58.4	65.3	83.8	95.0	
6. Ratio of Domestic saving to GNP (per cent)	16.9	18.2	17.0	14.5	18.3	15.8	15.3	16.3	Average 16.5
7. Ratio of domestic consumption to GNP (per cent)	83.1	82.8	83.0	85.5	81.7	84.2	84.7	83.7	Average 83.5

TABLE 10 — CONSUMPTION OF GROSS DOMESTIC PRODUCT AT 1344 PRICES (BILLIONS OF RIALS)

	1338	1339	1340	1341	1342	1343	1344	1345
1. Fixed domestic investment	60.1	69.1	58.6	48.7	58.4	65.3	83.8	95.0
2. Consumption	255.5	272.5	283.2	299.3	305.7	326.7	370.5	402.4
3. Net export and import of goods and services	5.1	6.6	19.1	26.6	36.3	24.1	21.8	26.4
4. Gross Domestic Product (1+2+3)	320.7	348.2	360.9	374.6	400.4	416.1	476.1	523.8

TABLE 11 — ACTIVE POPULATION OF IRAN IN 1335, 1343 AND 1346 (THOUSANDS OF PERSONS)

	1335		1343		1346	(Estimated)
	Number	Percentage	Number	Percentage	Number	Percentage
1. Active population	6,070	32.0	6,390	27.8	7,052	26.4
a. Employment-seeking population	(160)	(0.8)	(400)	(1.7)	(120)	(0.4)
b. Employed population	(5,910)	(31.2)	(5,990)	(26.1)	(6,932)	(26.0)
2. Non-active population	12,885	68.0	16.581	72.2	19,624	73.6
3. Total population (1+2)	18,955	100.0	22,971	100.0	26,676	100.0

activity and a consequent decrease in employment opportunities and second, the fact that the increase in Gross National Product during the period was mostly related to industries which were not labour-intensive. From 1343 on, however, when economic activity began to pick up, employment increased substantially. (Table 11)

13. In terms of distribution, it will be noted that employment in the agriculture sector, which in 1335 accounted for about 56 per cent of all employment, declined in 1346 to about 49 per cent. Nevertheless, as regards employment, the agriculture sector is still numerically the most important sector of economic activity. (Table 12)

TABLE 12 — EMPLOYMENT DISTRIBUTION IN THE THREE MAIN SECTORS (THOUSANDS OF PERSONS)

	1335	Percentage of Total	1346 (Estimated)	Percentage of Total
Agriculture	3,330	56	3,372	49
Industry	1,190	20	1,686	24
Services	1,390	24	1,874	27
Total	5,910	100	6,932	100

GOVERNMENT FINANCES

14. To understand the financial position of the Government during the period under review and to discover the extent to which the policy of the Government in increasing savings, as envisaged in the Third Plan, has actually been implemented, it is necessary to examine the Government's sources of income, excluding domestic and foreign loans, and compare them with current expenditures. During the 1338 - 45 period, Government revenues rose from Rials 40.9 billion to Rials 98.1 billion, an increase of 140 per cent, and the contribution of these revenues to Gross National Product increased from about 15 per cent in 1338 to about 22 per cent in 1345. The chief sources of Government revenues have been, in order of importance, oil, indirect taxation, direct taxation and income from profit-making and commercial Government enterprises. The most important changes to occur during this period have been a decline in the relative contribution of indirect taxation and income from profit-making and commercial Government enterprises and an increase in the contribution of direct taxation and oil. Another point worthy of note is that during the period oil revenues accounted

TABLE 13 — COMPARISON OF COMPONENTS OF GOVERNMENT REVENUES IN 1338 AND 1345

	1338			1345		
	Amount in billions of Rials	Percentage of Total	Percentage of Gross National Product	Amount in billions of Rials	Percentage of Total	Percentage of Gross National Product
1. Oil	19.6	47.9	7.0	49.6	50.6	11.3
2. Indirect taxation including:	12.8	31.3	4.5	26.8	27.3	6.1
a - Foreign trade	(10.1)	(24.7)	(3.6)	(17.6)	(17.9)	(4.0)
b - Other indirect taxes	(2.7)	(6.6)	(0.9)	(9.2)	(9.4)	(2.1)
3. Direct taxation	3.7	9.0	1.3	9.2	9.4	2.1
4. Profit-making and commercial enterprises	3.7	9.0	1.3	7.1	7.2	1.6
5. Government services	1.0	2.6	0.4	3.7	3.8	0.8
6. Miscellaneous	0.1	0.2	—	1.7	1.7	0.4
Total	40.9	100.0	14.5	98.1	100.0	22.3
Index	100.0	—	—	239.8	—	—

for about 50 per cent of all Government revenues, indicating that Government dependence on oil revenues has not only continued but actually increased. It should be added that during the period the Government's collection machinery has improved, and the Government's current income, excluding oil, increased from Rials 21.3 billion to Rials 48.5 billion beween the years 1338 and 1345, an increase of 128 per cent for the period, or an average of about 12.5 per cent.

15. As indicated in Table 13, in 1338 total Government revenues were about 14.5 per cent of Gross National Product, of which 7 per cent was attributable to income from oil, whereas in 1345 total Government revenues increased to 22.3 per cent of Gross National Product, of which 11.3 was attributable to income from oil. It can therefore be deduced that increases in the Government revenue both from oil and other forms of taxation, have been roughly parallel to each other.

16. As regards Government expenditure, since during the period under review certain changes have been made in the classification of both development and current expenditure items, comparison of the trends in current expenditure with those of development expenditure, especially capital expenditure, is not easy. Assuming, however, that Plan Organization expenditure is generally of a development nature and expenditure incurred by the Ministry of Finance is of a current nature, Table 14 will to some extent reflect the trends in current expenditure as compared with total Government revenue.

TABLE 14 — GOVERNMENT CURRENT EXPENDITURE

Year	Government current expenditure (billions of Rials)[1]	Index: (1338= 100)	Total Government revenue (billions of of Rials)	Current expenditure as a percentage of total revenue
1338	30.5	100	40.9	74
1339	37.1	122	45.7	81
1340	38.9	127	45.7	85
1341	41.6	136	48.2	86
1342	45.2	148	58.3	77
1343	49.7	163	68.0	73
1344	54.0	177	79.5[2]	68
1345	62.5	205	98.1	64

1 — Excludes current development expenditure.
2 — Excludes Rials 10.1 billion oil bonus.

According to the figures in Table 14, it seems that during the period under review current Government expenditure has steadily increased, while there was no noticeable increase in Government revenue during the years of recession. As a result, during the 1338 - 1341 period current expenditure has been continuously rising in relation to total Government revenue. In the period of renewed economic activity that followed, Government revenue has constantly risen and as a result there has been a steady decline in the ratio of current expenditure to total Government revenue.

FINANCIAL OPERATIONS DURING THE THIRD PLAN

17 - According to the introductory report of the Third Development Plan, it was envisaged that total development expenditure, in both the private and public sectors, would amount to Rials 348 billion, of which Rials 290 billion was to be for fixed investment and Rials 58 billion was to be for current supporting expenditure. The contribution of the public sector to total development expenditure was set at about Rials 190 billion. During the course of its study of the preliminary report, however, the Government decreased the proposed public sector development budget to Rials 140 billion. Then, in 1343, this figure was raised to Rials 200 billion. With the acceleration of the pace of development activity and increased Government revenues, however, the volume of development investment was finally approved at Rials 230 billion. These changes were the result of revised forecasts of Government revenue made during the course of the implementation of the plan and of the nature of actual progress of individual programmes. Table 15 shows expenditure and receipts of Plan Organization during the Third Plan.

18 - As may be seen from Table 15, if expenditure in 1346 reaches the budget target figure, development expenditure for the Plan period will be about Rials 205 billion and total expenditure will be about Rials 228 billion. The sources of the latter figure are about Rials 31 billion from foreign credits, Rials 23.3 billion from the banking system, Rials 14.4 billion from private savings and the remainder (about Rials 159 billion) from oil revenues and miscellaneous income.

GOVERNMENT REVENUE AND CURRENT EXPENDITURE 1338-1345

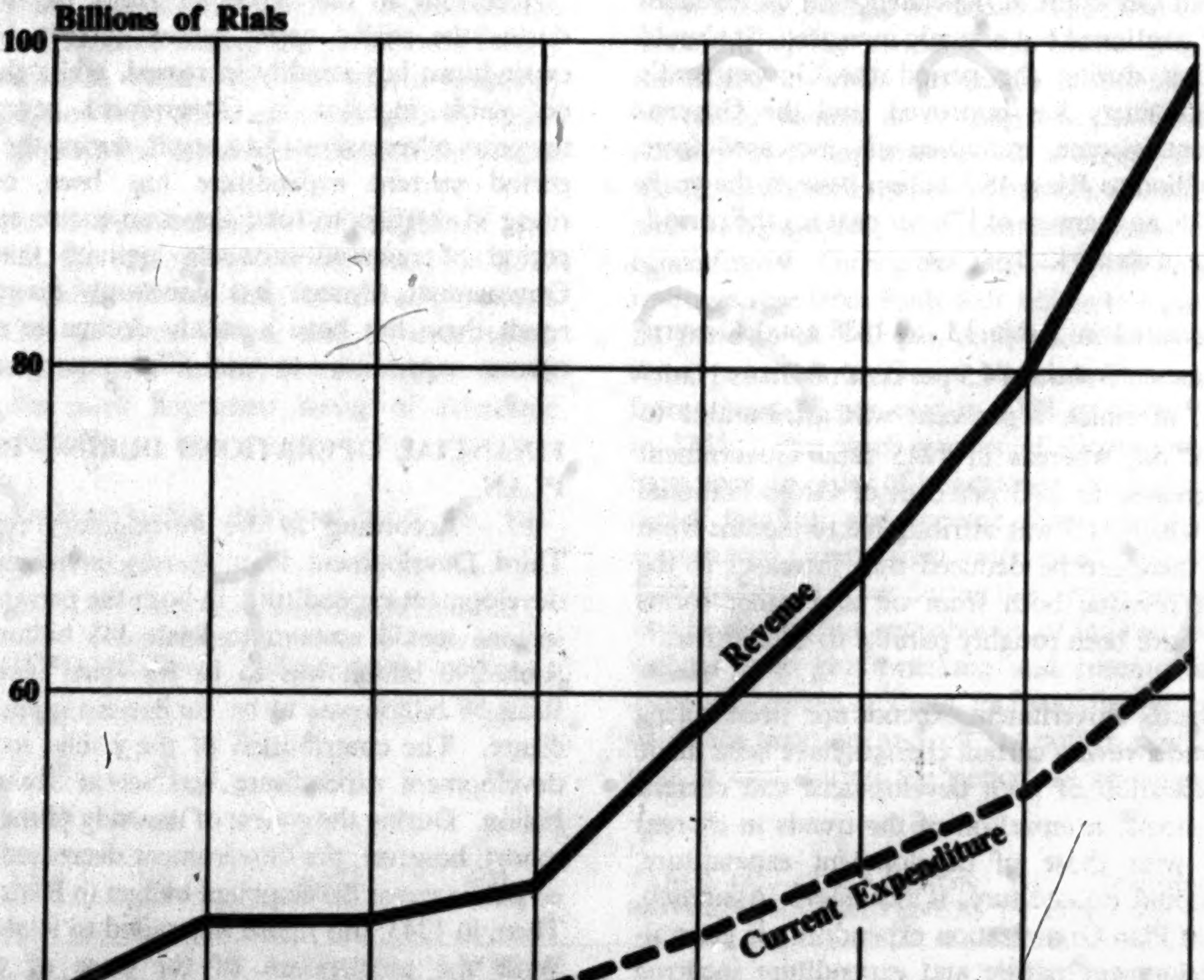


TABLE 15—AMOUNTS AND SOURCES OF PLAN ORGANIZATION EXPENDITURE DURING THE THIRD PLAN (BILLIONS OF RIALS)

	Second Half 1341	1342	1343	1344	1345	1346*	Third Plan Total
Payments							
Development expenditure	7.2	18.8	27.2	42.0	46.4	63.1	204.7
Other expenditure	1.3	2.9	3.3	5.8	4.9	5.2	23.4
Total payments	8.5	21.7	30.5	47.8	51.3	68.3	228.1
Receipts							
Oil income	3.4	16.3	22.3	37.6	34.4	40.5	154.5
Utilization of foreign loans	1.8	1.1	0.9	2.3	4.7	20.5	31.3
Utilization of short-term bank credits	2.0	3.8	3.5	1.0	3.7	—	14.0
Utilization of Central Bank credits for Tehran Refinery and Second Trans-Iranian Pipeline	—	—	1.1	4.3	2.6	1.3	9.3
Revenue from sale of Treasury bonds	—	—	2.0	2.0	5.4	5.0	14.4
Miscellaneous	1.3	0.5	0.7	0.6	0.5	1.0	4.6
Total receipts	8.5	21.7	30.5	47.8	51.3	68.3	228.1

* Budget figures for 1346

19 - Table 16 shows the distribution of allocations within the Rials 230 billion Plan framework, according to Plan chapters, and also actual expenditure up to the end of Mordad 1346 (August 22, 1967) under each chapter. As can be observed, activities concerned with agriculture, urban development, health, housing, construction and education have had a comparatively high rate of absorption of allocation.

VOLUME OF MONEY AND PRICES

20 - An extensive inflationary tendency dominated the years 1338 and 1339. This tendency started in 1336 and was curbed through the launching of an economic stabilization programme in 1339. Thereafter, while passing through a period of recession, the economy experienced relatively stable prices and slight credit expansion, while various factors combined to result in a slowing up of the velocity of money and a reduction in the volume of transactions. Despite the policy of the Government in reactivating the economy through the expansion of bank credits to the private sector, the lack of confidence on the part of the business community neutralized the effects of this development and resulted in an increase in fixed deposits. Consequently the volume of money in circulation did not increase in proportion to these credits. From the end of 1339 to the end of 1343 the volume of credit extended to the private sector increased from Rials 42 billion to Rials 73 billion, while as a result of the increase in this sector's fixed deposits, net credits to the private sector rose from Rials 29 billion to Rials 40 billion, an increase of only about Rials 11 billion. On the other hand, as a result of the economic stabilization programme there was a steady decrease in the total volume of credits to the public sector up to 1341, although in 1342 they began to increase again. Government deposits also increased during the period so that in fact net credits to the public sector decreased from Rials 18 billion at the end of 1339

TABLE 16 — DEVELOPMENT EXPENDITURE FROM MEHR 1341 TO END OF MORDAD 1346 AS AGAINST APPROVED ALLOCATIONS (SEPT 23, 1962 TO AUGUST 22, 1967)

Chapter	Approved Allocations		Expenditure up to end of Mordad 1346		Expenditure as percentage of approved allocations
	(Rials billion)	Percentage of each chapter to total	(Rials billion)	Percentage of each chapter to total	
1. Agriculture and irrigation	49.0	21.3	41.8	25.5	85.3
2. Industry and mining	29.1	12.6	12.3	7.5	42.3
3. Power and fuel	35.0	15.2	20.7	12.6	59.1
4. Communications and tele-communications	60.0	26.1	43.6	26.6	72.7
5. Education	18.0	7.8	14.3	8.7	79.4
6. Health	13.5	5.9	11.1	6.8	82.2
7. Labour and manpower	3.3	1.4	2.3	1.4	69.7
8. Urban and rural development	7.5	3.3	6.3	3.8	84.0
9. Planning and statistics	1.6	0.7	1.2	0.7	75.0
10. Housing and construction	13.0	5.7	10.5	6.4	80.8
Total	230.0	100.0	164.1	100.0	71.3

to Rials 11.9 billion at the end of 1342. In fact, the implementation of the economic stabilization programme had a more limiting effect than had been expected and although in 1341 the Government took steps to modify the economic stabilization programme by increasing private sector credits, the economic recession continued until 1343, since this monetary policy, unsupported by other measures, such as the expansion of development activity, could not in itself cure the prevailing economic ills.

From 1343 on, the policy of expanding the volume of public sector investment and the utilization of new bank credits and deposits provided an incentive for the private sector, and consequently, concurrent with greater utilization of bank credits by the private sector, the reactivation of the economy began. An analysis of this past situation confirms the correctness of the policy which is now normal in developed countries, which is to set the volume of Government activity so that the entire economy does not undergo any extreme fluctuations. Table 17 shows the changing trends in the extension of bank credits and cash volume during the period under review.

21 - During the period 1338 - 1345 there was an overall increase in the volume of money of 65 per cent, whereas the increase in the volume of the national product was 55 per cent and that in the level of wholesale prices was 10 per cent.

It will be seen from Table 18 that the rate of increase in velocity of money between 1338 and 1345 was very slight, and consequently prices almost rose to a level where the increase in cash volume was greater than the increase in the national product.

22 - An analysis of the cost of living index also shows that during the period 1338 - 1344, except for the years 1339 and 1343 when prices increased rapidly, the general index rose fairly moderately. Price increases in 1339 were experienced in all fields, the main reason being the inflationary tendencies of the time. In 1343, however, price increases were due to a decline in agricultural production, which sharply increased the price of foodstuffs (by about 6.4 per cent). Apart from foodstuffs, the prices of other items in the cost of living, such as clothing and housing, rose relatively moderately. The housing index even showed a decline over that of 1339. This indicates that the monetary policy has been effective in price stabilization, and that production problems in the agriculture sector, more than any other factor, have been responsible for increases in the prices of agricultural products and consequently in the cost of living. It should be added, however, that monetary policy alone was not responsible for the relative stability in prices, and that the state of recession already referred to also played a major part in creating that situation. Changes in the major components of the cost of living index during the period under review are shown in Table 19. Fluctuations in wholesale prices are only slightly different from the above trend. The index of wholesale prices during the period under review showed a slight increase (about one per cent) up to 1343, but in this year prices showed a sudden increase of 5.4 per cent. An analysis of the components of the wholesale price index indicates that the basic cause of this increase was the rise in prices of agricultural products, both foodstuffs and industrial raw materials. On the other hand there was a

TABLE 17 — VOLUME OF CREDITS EXTENDED AND FACTORS AFFECTING THE VOLUME OF MONEY
(BILLIONS OF RIALS)
(End of year)

	1338	1339	1340	1341	1342	1343	1344	1345
Private Sector								
1. Total volume of credits	37.8	42.7	50.7	61.5	72.9	88.1	102.2	121.2
2. Volume of non-sight deposits	11.3	13.3	16.2	24.8	32.5	38.4	45.2	53.9
3. Net private sector credits (1-2)	26.5	29.4	34.5	36.7	40.4	49.7	57.0	67.3
Net increase in credits (per cent)	—	10.9	17.3	6.4	10.1	23.0	14.7	18.1
Public Sector								
1. Total volume of credits	32.4	31.8	29.0	27.0	33.3	39.6	45.6	51.6
2. Sight and non-sight deposits	12.2	13.8	16.7	16.0	21.4	35.5	28.2	32.0
3. Net public sector credits (1-2)	20.2	18.0	12.3	11.0	11.9	4.1	17.4	19.6
Net increase in credits (per cent)	—	–11.0	–32.0	–11.0	8.2	–66.0	324.0	12.6
Net private and public sector credits	46.7	47.4	46.8	47.7	52.3	53.8	74.4	86.9
Bank notes and coins in circulation	17.4	17.0	17.9	19.8	22.6	24.1	25.4	27.4
Sight deposits at banks	23.0	24.7	23.0	24.1	26.4	29.8	34.9	39.4
Volume of money	40.4	41.7	40.9	43.9	49.0	53.9	60.3	66.8
Annual increase in volume of money over previous year	—	1.3	– 0.8	3.0	5.1	4.9	6.4	6.5
Annual increase in volume of money over previous year expressed as percentage	—	3.2	– 1.9	7.3	11.6	10.0	11.9	10.8

COST OF LIVING INDEX 1338-1345

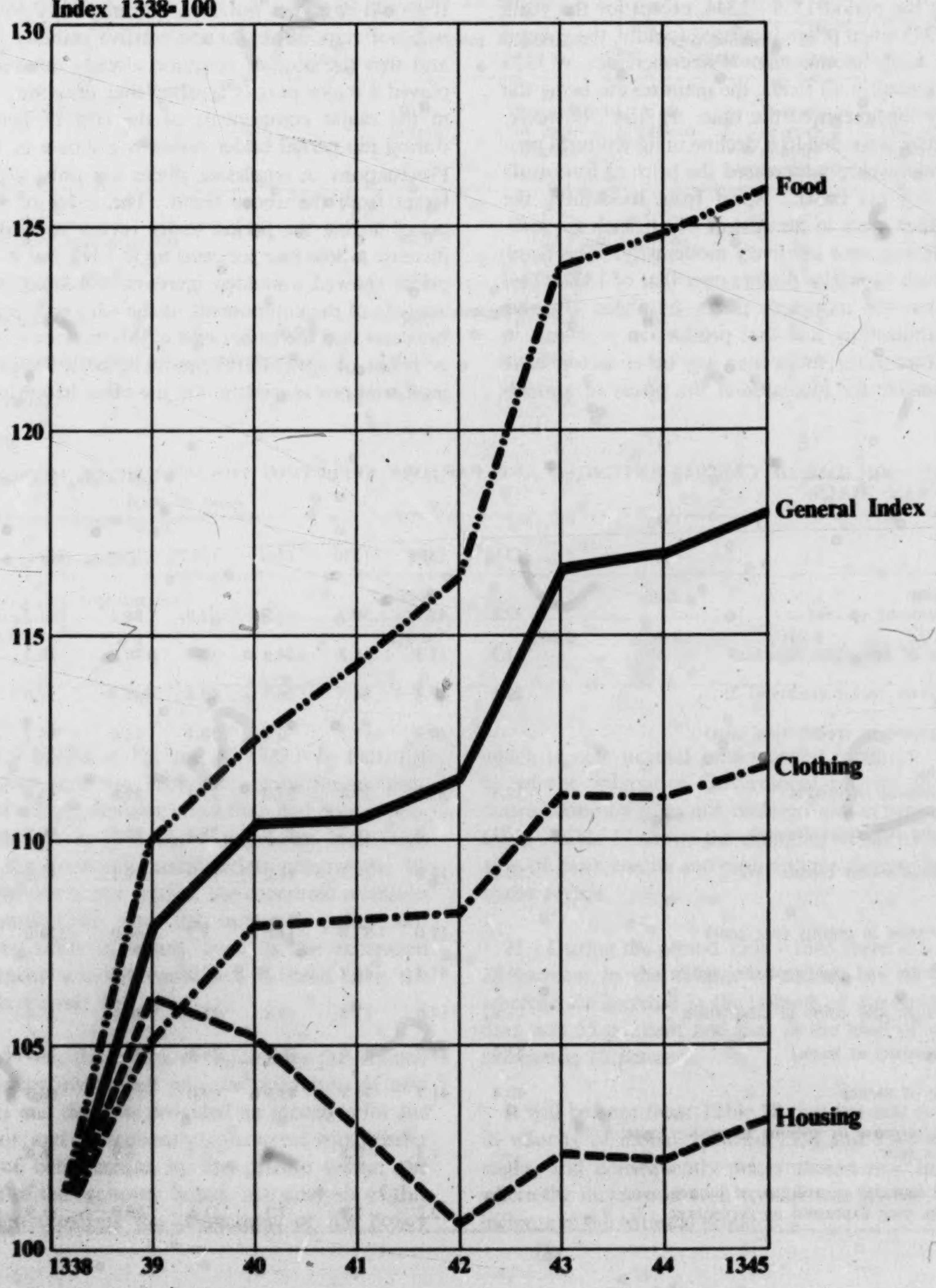


TABLE 18 — GROSS NATIONAL PRODUCT, VOLUME OF MONEY AND PRICE INDEX 1338-1345 (BILLIONS OF RIALS)

	1338	1339	1340	1341	1342	1343	1344	1345
1. Gross National Product (at current prices)	281.4	313.6	320.2	330.8	352.0	386.0	437.3	480.8
2. Volume of money	40.4	41.7	40.9	43.9	49.0	53.9	60.3	66.8
3. Wholesale price index (including crude oil)	100.0	102.0	102.2	103.6	104.0	109.6	110.6	110.0
4. Gross National Product (at 1338 prices)	281.4	307.4	313.3	319.3	338.5	352.2	395.4	437.1
Velocity 1 ÷ 2 of money	6.965	7.520	7.829	7.535	7.184	7.161	7.252	7.198

TABLE 19 — COST OF LIVING INDEX IN IRAN, 1338-1345 (1338 = 100)

	1338	1339	1340	1341	1342	1343	1344	1345
General index	100.0	107.9	110.6	110.6	111.7	116.7	117.0	117.9
Food	100.0	110.2	112.4	114.2	116.5	124.0	124.9	125.8
Housing	100.0	106.2	105.3	103.1	110.7	102.3	102.2	103.2
Fuel, lighting, water and ice	100.0	101.4	102.8	108.5	114.7	118.7	113.3	112.1
Clothing	100.0	105.3	107.8	108.2	108.0	111.1	111.1	111.7
Other goods and services	100.0	101.5	101.3	102.0	103.1	105.0	103.0	103.4

steady increase in the price of construction materials up to the early part of 1343, when as a result of renewed construction activity the price of this item rose about 8.4 per cent with a very slight increase in 1344.

During the last two years of the Plan, the Government has actively endeavoured to stabilize prices to prevent the cost of living from rising and where serious shortages of any goods have occurred it has taken immediate action to import the goods required. This policy, together with the increasing production in the field of agriculture during the latter years of the Plan, has resulted in prices being stabilized, so much so that in 1345 the cost of living index showed a rise of only 0.9 per cent.

THE BALANCE OF PAYMENTS

23 - In the developing countries, the pressure of external payments is usually one of the greatest barriers to growth. In Iran, however, because of oil revenues, the foreign exchange problem has not become acute, although during the eight years from 1345 the Government had to take measures limiting the importation of goods and services in order to preserve a proper balance of payments position.

24 - Total foreign exchange payments during the period 1338 to 1345 were about $5,619 million, of which $5,444 million was from oil revenues and exports of other goods and services, resulting in a deficit in the balance of payments on current account of only $175

IRAN'S BALANCE OF PAYMENTS, 1338-1345

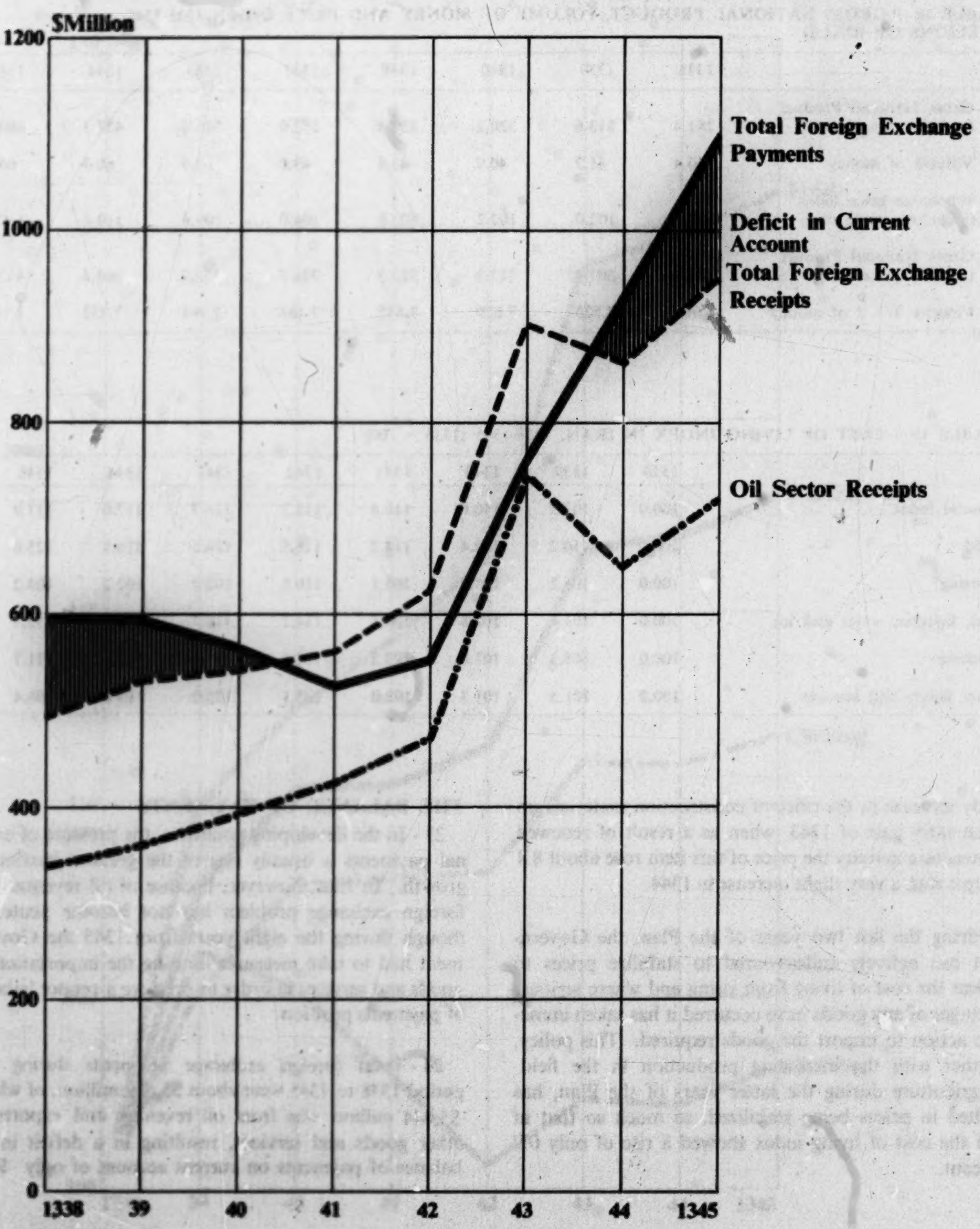


TABLE 20 — INDEX OF WHOLESALE PRICES IN IRAN, 1338-1345 (1338 = 100)

	1338	1339	1340	1341	1342	1343	1344	1345
1 — General Index	100.0	102.0	102.2	103.6	104.0	109.6	110.6	110.0
2 — Goods produced and consumed in the country	100.0	103.1	102.7	104.3	103.3	112.1	113.7	111.7
3 — Imported goods	100.0	101.9	105.2	106.9	110.0	110.5	111.1	112.1
4 — Exported goods	100.0	98.7	97.5	98.1	99.6	101.6	101.3	102.5
5 — Agricultural raw materials	100.0	103.8	104.8	109.7	105.7	116.0	119.0	109.8
6 — Animal raw materials	100.0	110.4	112.9	115.7	121.1	136.4	136.4	139.5
7 — Agricultural products	100.0	103.4	103.7	105.3	104.2	115.4	116.9	116.4
8 — Foodstuffs	100.0	102.6	104.3	106.8	106.9	115.6	116.6	115.5
9 — Construction materials	100.0	100.3	88.8	86.7	84.3	91.4	91.8	92.2
10 — Metals	100.0	106.7	104.4	101.6	95.2	100.8	104.3	103.6

TABLE 21 — SUMMARY OF IRAN'S BALANCE OF PAYMENTS DURING 1338-1345 (MILLIONS OF DOLLARS)

	1338	1339	1340	1341	1342	1343	1344	1345	1338-1345
a — Current Account									
Oil sector receipts	335.5	358.9	391.3	423.2	470.8	753.8	648.5	719.6	4101.6
Receipts for export of goods and services	159.4	169.2	147.4	132.6	148.0	146.0	209.8	230.0	1342.4
Total receipts	494.9	528.1	538.7	555.8	618.8	899.8	858.3	949.6	5444.0
Payments for imports of goods and services	595.9	597.9	565.9	527.7	548.1	759.2	932.3	1091.8	5618.9
Deficit or surplus in current account	−101.0	−69.8	−27.2	+28.1	+70.7	+140.6	−74.0	−142.2	−174.8
b — Capital Account									
Public Sector									
Net Government loans	+25.5	−6.4	+56.8	+0.3	−44.2	−45.0	+19.2	+105.6	+111.8
Foreign grants	33.7	21.8	30.0	—	—	—	—	—	+85.5
Total	+59.2	+15.4	+86.8	+0.3	−44.2	−45.0	+19.2	+105.6	+197.3

Continued on next page

Table 21 (cont.)

	1338	1339	1340	1341	1342	1343	1344	1345	1338-45
Private Sector (Excluding oil)									
Net loans and private capital	—	+1.8	+2.7	+2.0	+4.2	−0.1	+0.4	+16.7	+27.7
Total private and public sectors	+59.2	+17.2	+89.5	+2.3	−40.0	−45.1	+19.6	+122.3	+225.0
Gold bullion	—	-0.6	−0.1	−0.1	−0.1	−0.1	−0.4	—	−1.4
Net capital account	+59.2	+16.6	+89.4	+2.2	−40.1	−45.2	+19.2	+122.3	+223.6
Statistical errors	3.4	−2.2	−0.8	—	—	—	+2.6	−4.3	−1.7
Deficit or surplus in balance of payments	−38.4	−55.4	+61.4	+30.3	+30.6	+25.4	+52.4	−24.6	+47.1

million. This deficit has been met by foreign loans and imports of capital on the part of both the public and private sectors. Furthermore, during the same period, foreign assets have increased by about $ 47 million. (Table 21).

25 - Generally speaking, the average annual growth of foreign exchange earnings during the period under review has been 10.6 per cent whereas the increase in foreign exchange payments has been 10.2 per cent. This balance has been achieved by tight measures taken by the Government to protect domestic industries and to economize in foreign exchange spending. Without these measures, the potential demand for imports of goods and services might have resulted in this balance disappearing, as in 1338 and 1339. At the same time, other favourable factors such as the receipt of a $185 million oil bonus in 1343 also contributed to bringing about this balance. A bonus of about $10 million was also received later.

26 - During this period, net loans received by the Government (after repayments and payment of compensation to the British Petroleum Company) amounted to $197 million. Net disbursements to the private sector during this period (excluding capital imported by the oil sector) amounted to about $28 million.

FOREIGN TRADE

27 - During the period 1338 - 1344, there has been an expansion in Iran's volume of foreign trade, with exports of goods other than oil increasing by approximately 50 per cent and imports by approximately 20 per cent. Since, however, during the early part of the period the level of exports other than oil was only about 15 per cent of total imports, although on an overall basis the increase in exports was greater than that of imports, the absolute gap between exports and imports increased, the deficit being compensated for oil exports. The continuation of this trend, namely relying on the export of crude oil to meet a substantial portion of the foreign exchange requirements of the country, cannot be accepted as a way of preserving the stability of the economy, which requires a more rapid increase in exports, and the export of items other than oil.

A summary of changing trends in the value of exports and imports during the period is shown in Tables 22 and 23.

TABLE 22 — EXPORTS (OTHER THAN OIL) AND IMPORTS AT 1344 PRICES (MILLIONS OF DOLLARS)

Year	Exports	Index	Imports	Index
1338	120.0	100	730.1	100
1339	127.4	106	742.3	102
1340	146.8	122	652.3	89
1341	138.7	116	573.1	78
1342	146.7	122	519.0	71
1343	151.4	126	749.8	103
1344	180.8	151	876.3	120
1345	157.5*	131	962.7	132

* This decline was due to an outbreak of boll worm, which seriously affected the cotton crop.

TABLE 23 — EXPORTS (EXCLUDING OIL) AND IMPORTS BASED ON CURRENT PRICES (MILLIONS OF DOLLARS)

Year	Exports	Imports
1338	102.6	650.4
1339	111.4	682.5
1340	127.9	619.0
1341	124.7	551.7
1342	138.2	614.5
1343	153.1	745.9
1344	180.8	876.3
1345	157.5	962.7

28 - **Exports** - During the period 1338 - 1344, the real value of exports (excluding oil) rose by about 50.7 per cent, from $120 million in 1338 to $180.8 million in 1344, at 1344 prices. Table 24 shows the pattern of exports in 1339 and 1344.

Table 24, which shows the pattern of exports in 1339 and 1344, reveals that cotton, carpets and dried fruit were the most important export items in 1339, and represented approximately 26, 24 and 15 per cent of the total value of exports from Iran respectively.

As the total increase in exports between 1339 and 1344 was about 42 per cent at 1344 prices, and the increases in exports of cotton and carpets were respectively about 52 and 50 per cent, the increase in the export value of these two items has been faster than that of total exports. During the period, exports of dried fruit increased by about 20 per cent, a considerably slower rate of increase than that of other export items. Tables 25 and 26 show the variations in export trends of main export items during the years 1339 to 1344.

TABLE 24 — EXPORTS (EXCLUDING OIL) IN 1339 AND 1344 (AT 1344 PRICES)

Item	Total Exports in 1339 (Millions of dollars)	Percentage of Total Exports	Total Exports in 1344 (Millions of dollars)	Percentage of Total Exports
Cotton	32.9	25.8	50.1	27.8
Carpets	30.3	23.8	45.4	25.1
Dried Fruit	19.3	15.1	23.0	12.7
Other Goods	44.9	35.3	62.3	34.4
Total	127.4	100.0	180.8	100.0

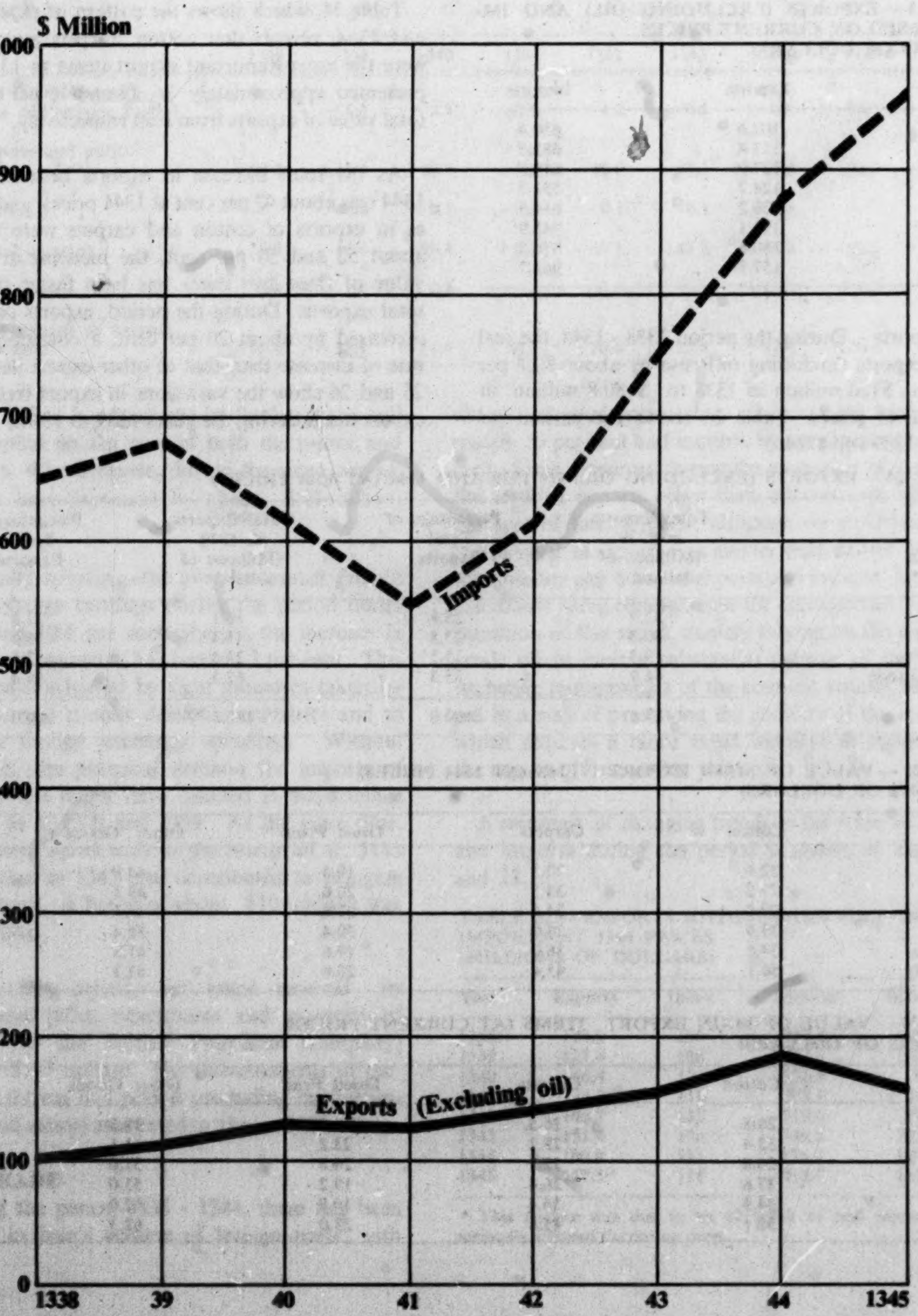
TABLE 25 — VALUE OF MAIN EXPORT ITEMS (AT 1344 PRICES) (MILLIONS OF DOLLARS)

Year	Cotton	Carpets	Dried Fruit	Other Goods	Total
1339	32.9	30.3	19.3	44.9	127.4
1340	27.2	33.5	26.6	49.5	146.8
1341	29.8	24.6	27.6	56.7	138.7
1342	39.9	28.0	20.4	58.4	146.7
1343	34.5	36.0	19.6	61.3	151.4
1344	50.1	45.4	23.0	62.3	180.8

TABLE 26 — VALUE OF MAIN EXPORT ITEMS (AT CURRENT PRICES) (MILLIONS OF DOLLARS)

Year	Cotton	Carpets	Dried Fruit	Other Goods	Total
1339	28.8	26.5	16.8	39.3	111.4
1340	32.4	29.2	23.2	43.1	127.9
1341	26.8	22.1	24.8	51.0	124.7
1342	37.6	26.4	19.2	55.0	138.2
1343	34.9	36.4	19.8	62.0	153.1
1344	50.1	45.4	23.0	62.3	180.8

EXPORTS (EXCLUDING OIL) AND IMPORTS AT CURRENT PRICES



29 - Imports - During the period 1338 - 1344, the total import value of both customs-exempt and non-exempt goods rose from $730.1 million to $876.3 million, an increase of approximately 20 per cent. Tables 27 and 28 show variations in import trends during this period.

As indicated in the above tables, the ratio of imports of capital goods to total imports, which in 1338 was 47 per cent, remained virtually the same in 1344, that is to say the rate of increase in the imports of this category of goods was proportionate to the rate of increase in total imports. The import of raw materials and intermediary goods, however, increased rapidly, representing an increase in value of approximately 82 per cent and an increase of about 50 per cent in terms of relative importance within the total import structure, an indication of the industrial growth of the country. Both the import value and the relative importance of consumer goods within the total import structure, however, declined, indicating both increasing importance of import substitutes and the increasing requirements of the country for more imports of capital goods and raw materials. The priority given to these two categories has caused further restriction on imports of consumer goods.

TABLE 27 — IMPORTS IN 1339 AND 1344 (AT 1344 PRICES)
(MILLIONS OF DOLLARS)

		Total in 1339	Percentage of total imports	Total in 1344	Percentage of total imports
1.	Imports of capital goods	343.2	47.0	415.8	47.5
2.	Imports of raw materials and intermediary goods	132.0	18.1	238.9	27.3
3.	Imports of consumer goods	254.9	34.9	221.6	25.2
4.	Total imports	730.1	100.0	876.3	100.0

TABLE 28 — IMPORTS DURING THE PERIOD 1338-1344 (AT CURRENT PRICES)
(MILLIONS OF DOLLARS)

		1338	1339	1340	1341	1342	1343	1344
1.	Imports of capital goods	308.9	315.5	269.3	228.4	199.2	283.8	415.8
2.	Imports of raw materials and intermediary goods	111.8	126.7	126.7	146.4	234.6	208.6	238.9
3.	Imports of consumer goods	229.7	240.3	223.0	176.9	180.7	253.5	221.6
4.	Total imports	650.4	682.5	619.0	551.7	614.5	745.9	876.3

ACHIEVEMENTS AND PROBLEMS DURING THE THIRD DEVELOPMENT PLAN

30 - The beginning of the Third Development Plan coincided largely with the after-effects of the recession and the economic stabilization programme which took place towards the end of the Second Plan. Economic growth during the earlier years of the Plan consequently fell short of what had been forecast, even though problems of shortage of foreign exchange and inflation were brought under control during the years 1341, 1342 and 1343. During the latter years of the Plan, however, as a result of increased investment on the part of the public sector and a revival of confidence on the part of the private sector, the country experienced substantial growth. The primary objective of the Third Plan was an average annual growth rate of 6 per cent in the national income. According to national income statistics (Table 2) it will be seen that the rate of economic growth in the Third Plan has even exceeded this objective. While for the first three years of the Plan Iran's Gross National Product, at 1344 fixed prices, had an average growth of only about 4.4 per cent, during the latter years of the Plan, there was a substantial increase in the rate of growth and it is expected that over the whole Plan period the average rate of growth will exceed 8 per cent. This rate of growth, coupled with price stability, means that the average annual growth in national income will be 8 per cent. Generally speaking, the reasons for this rapid and substantial growth, despite the problems of the earlier years of the Plan, have been the use that has been made of additional capacities and idle capital and renewal of confidence on the part of the private sector and the resulting incentive to invest in this sector, as well as the rapid increase in oil revenues and the allocation of the major portion of these revenues to investment on the part of the public sector.

31 - The second most important objective of the Third Plan was "the creation of an appropriate number of new jobs". An evaluation of the progress made in this respect during the Third Plan is hampered by the lack of proper statistical information concerning employment. The studies of this matter during the earlier years of the Plan lead to the conclusion, however, that the rate of unemployment did not noticeably decline between 1335 and 1343. This was because, first, the economic recession of 1339 - 1342 reduced activity and decreased employment opportunities and, second, during this period the increase in Gross National Product was primarily due to oil and did not create new employment. At the same time, the use of additional capacity and the introduction of modern techniques in certain industries prevented any appreciable increase in the level of new employment during the years under review. From 1343, as a result of the economic revival, new employment opportunities began to increase rapidly (Table 11).

32 - The third general objective of the Third Development Plan was "a more equitable distribution of income and the creation of opportunities for individual initiative through basic reforms, especially in the field of agriculture." In keeping with this aim, in Bahman 1341 (January 1963) the charter of an important social revolution was approved through public referendum. In addition to land reform this charter provided for the extension of education and health services in rural areas, raising workers' incomes by giving them a share in the net profits of factories, and the preservation of natural resources in the interests of the public. Even though Iranian society is still in the early stages of this basic reform, the effects of these changes are already apparent in the form of more equitable distribution of income in favour of the rural population. Another important pillar of this revolution is the granting of political and social rights to women, which in the course of time will contribute to narrowing the differences between various classes.

33 - In the Third Development Plan, agriculture was designated as the most important sector of the economy, and it was planned to increase annual production by an average of 4 per cent. In practice, however, the average annual growth in this sector did not exceed 1.8 per cent during the period 1341 - 1344, although agricultural production increased by about 5 per cent in 1345 and will probably increase by a similar amount in 1346. Nevertheless, the overall growth envisaged for the Plan period will not be reached. The reason for this low rate of growth is primarily the inherent limitations of irrigation farming as opposed to dry farming and the lack of confidence concerning the supply of water required for irrigation farming, except for land under dam-irrigation,

as well as too great a dependence on climatic factors. Furthermore, since livestock production accounts for about 40 per cent of the gross product of this sector, such factors as animal diseases and drought can, as they did in the earlier years of the Plan, substantially decrease the rate of growth in this sector and consequently that of the whole economy. The scattered nature of agricultural units and the great distances involved hinder both the extension and propagation of modern techniques at the village level and the delivery of agricultural and livestock products to the main centres of consumption. The implementation of road construction programmes, including those for feeder roads, will help to reduce distances between centres of production and consumption, and will also lead to an increase in the area of land under irrigated cultivation, particularly in areas to be irrigated by dams now under construction, and thereby reduce the degree of dependence on climatic factors. The effects of these measures have not, however, been very apparent during the Third Plan and it will be during the Fourth Plan that the economic results of the construction of feeder roads and increased land under irrigation cultivation will be seen. In terms of basic problems and social structure an important achievement of the Third Plan has been the implementation of the land reform programme and the transformation of the feudal, landlord-and-peasant system, which for centuries had been a major obstacle to the rapid increase of agricultural productivity and the propagation of social justice among the rural population. Although a basic reform took place in the social structure of rural areas, it will be during the course of future plans that the full effects of this basic reform will make themselves shown in the form of a new rural economic structure.

34 - During the Third Plan the industrial sector enjoyed an annual growth of over 12 per cent and investments in this sector exceeded forecasts. As result of efforts directed towards the advancement of the objectives in this sector, private investment increased considerably and the public sector assumed responsibility for the guidance of industrial expansion by laying the foundations for heavy industry, participating in private sector investments, protecting domestic industry, and implementing policies to encourage the latter by granting exemptions from customs duties, providing credit facilities and decreasing commercial benefit taxes. These efforts resulted in the increased diversification of manufactured goods and paved the way for exports of industrial goods other than oil. During the Third Plan period, the food-processing, textile and leather industries have enjoyed the lowest rate of growth, and the construction materials, machinery-manufacturing, metal products and clothing industries the highest.

During the earlier years of the Plan, the public sector, with its active policies for overcoming the crisis in the industrial sector, extended credit facilities and participated in investment in industries affected by the recession and during the latter years of the Plan laid the foundations of heavy industries (steel, petrochemicals and gas). The private sector, despite its relative inactivity during the early years of the Plan, showed such unprecedented activity during the latter years that the outlook for this sector during the Fourth Plan and in the years to come is very hopeful.

35 - The efforts that were made to disperse industry towards economic poles and prevent its unbalanced concentration in Tehran, by the implementation of credit policies, tax exemption measures and licensing regulations, has had obvious effects during the Third Plan, so that both the public and the private sectors directed their investments towards areas other than the capital, which can become the future industrial poles of the country and further extend the effects of growth to areas suitable for expansion.

36 - The technical studies carried out on specific industrial projects, and success in persuading the private sector to use the results of these studies and to invest in these projects, have been among the most effective measures taken by the Government during the Third Plan.

37 - The oil industry showed unprecedented activity during the Third Plan, so much so that not only was great success achieved in meeting domestic requirements, production increases and exports, but the industry also extended its activities abroad. The Government entered into new and progressive agreements with foreign oil companies, as a result of which new oilfields have been discovered. Production of crude oil by both the National Iranian Oil Company and other companies operating

in Iran has shown an average annual increase of about 12.5 per cent. To provide stable markets for the sale of crude oil in markets additional to those existing at present, agreements were entered into with countries which had not previously purchased Iranian oil, and steps were taken to export crude oil to these countries. Investment was also made in the construction of a refinery in Madras. The domestic consumption of oil products increased by about 11 per cent per year, and distribution was extended in rural areas. All in all, the growth of the oil industry during the Third Plan resulted in a substantial increase in the national income and strengthened the country's foreign exchange resources. Furthermore, during the Third Plan the foundations of a gas industry were laid, and preliminary steps were taken towards the export of gas and the supply of gas for urban consumption, both in the near future. Among the related measures taken during the Third Plan was the construction of the Ahwaz pipe-mill.

38 - During the Third Plan, in order to utilize the country's water resources, the construction of unfinished dams was completed, projects for the drilling of deep and shallow wells, improvements to ghanats (underground water channels) and better utilization of surface water were implemented, all of which, in addition to supplying potable water to cities, including Tehran, resulted in about 140 thousand hectares of virgin land being made available for irrigated cultivation, and improvements to the networks of 210 thousand hectares of land already under cultivation. In addition, the construction of four large dams, named Shah Abbas the Great, Darius the Great, Shahpour I and Cyrus the Great, was begun during the Third Plan.

39 - In the field of power generation and distribution, fundamental measures were taken during the Third Plan and the desired objectives were achieved. Approximately 826,000 kW of new generating capacity was installed, and in addition to the Manjil-Tehran and Manjil-Pahlavi power transmission lines, by the end of the Third Plan, 465 kilometres of 230 kV line, 160 kilometres of 132 kV line and 600 kilometres of 60 kV line will have been constructed. Exceptional progress was made in the field of organization and management in this sector. As a result of the centralization of activities concerned with power in the newly-established Ministry of Water and Power and the implementation of modern managerial techniques and with due consideration to the fact that the power industry is a national one and must serve the public interest, specific policies were approved and implemented. In addition, a master plan for the establishment of a national grid, for execution in the Fourth and subsequent Plans, was prepared. In general, the power industry became an important national industry giving due consideration to industrial and urban domestic requirements, and thus paving the way for further development in future Plans.

40 - In the field of communications, approximately 3600 kilometres of major roads were constructed. This is less than the Third Plan target, however, because of certain problems that were encountered, such as increases in construction costs. The construction of feeder roads, a new activity under the Third Plan, was carried out vigorously in order to connect centres of production to centres of consumption. At the end of the Third Plan, 5500 kilometres of feeder roads will have been constructed with an additional 3300 kilometres under construction. In addition, steps have been taken for the preparation of technical projects ready for tendering and 4000 kilometres of major roads and 6000 kilometres of feeder roads are ready for construction. The standardization of roads with technical specifications sufficient for a single axle-load of 13 tons was implemented. Load control measures were successfully carried out and the number of weighing stations increased during the Plan. Nevertheless, difficulties have been encountered in the maintenance of roads, especially of feeder roads, most of which were completed towards the end of the Plan.

41 - During the Third Plan, the construction of railway stations in Tabriz and Mashhad was completed and steps were taken in conformity with the Plan for the linking up of the Turkish and Iranian railway systems by constructing a railway line between Sharafkhaneh and Ghatoor, and most of the construction work will be completed by the end of the Third Plan. To meet the requirements of the steel mill, a railway line is rapidly being constructed between Esfahan and the site of iron ore and coal deposits in Kerman. The organization of Iranian State Railways, however, in terms of transport

services and competition from other means of transport is unsatisfactory. Measures should immediately be taken to review its operating procedures and accounting system if rail transport is to play a proper part in the country's communications system.

42 - In the field of port development, the main objective of the Third Plan has been the construction of a large port at Bandar Abbas on the Persian Gulf, which will be completed during the Third Plan. This project, together with the completion of the port of Bushehr and the modernization of the ports of Bandar Shahpour in the south and Bandar Pahlavi in the north, will raise the capacity of Iranian ports from two million tons at the start of the Plan to four million tons by the end. Other important activities in this field during the Third Plan have been the completion of the crude oil loading terminal on Kharg Island and the start of construction of a port at Bandar Mahshahr (formerly Bandar Mashur) for the export of petrochemicals. It should be mentioned, however, that despite these achievements in port construction, the management of Iranian ports is still faced with great difficulties and more economic use must be made of them.

43 - The objective of the Plan regarding airports was the construction of 11 new airports and the installation of new facilities at existing airports, especially the international airports of Mehrabad (Tehran) and Abadan and the first-class airports of Shiraz and Esfahan. During the Third Plan, most of the construction work on the new airports has been completed and the improvement and equipping of airports was carried out according to schedule. Iran National Airlines Corporation, by extending its domestic services and using airports already completed, managed to increase domestic air transport by about 23 per cent per year. It has also considerably extended its international services by purchasing new aircraft. At the same time, new stations have been established for the control of flight operations and weather forecasting.

44 - During the Third Plan, steps were taken to increase the number of automatic telephone exchanges in Tehran and to install them in 14 other cities. As a result, the number of automatic lines will be raised from 100 thousand to 200 thousand during the course of the Plan. To facilitate telephonic and telegraphic connections, a Trans-Iranian microwave system and an Esfahan-Shiraz microwave link were introduced, with telecommunication facilities between various points in 11 provinces. Measures were also taken to complete the Trans-Iranian microwave network. Postal services were expanded during the Plan and as a result of the use of mail-boxes and private post boxes and the establishment of rural post offices, the volume of correspondence and the rate of distribution increased considerably. During the Third Plan, the number of mail-boxes increased from 800 to 17,000, private post boxes from 5,000 to 35,000 and rural post offices from 450 to 1,000 and the volume of mail handled increased from 180 million items per year to 360 million. The output of radio transmitters was increased to develop both domestic and foreign broadcasts. A national television station was established in Tehran and steps were taken to create a network of stations in important provincial centres.

45 - In the field of primary education, it was anticipated that during the Third Plan the shortage of teachers would create major problems, while the construction of sufficient school buildings would be carried out without difficulty. However, by introducing short-term teacher-training programmes and employing large numbers of high school and university graduates the problem of teacher shortage was overcome, at least as regards numbers. The school construction programme, however, was carried out so slowly that even in large cities it was necessary to introduce a morning and an afternoon shift in primary schools, which was in itself a worse problem than that of the quality of the teachers themselves. In terms of numbers, the objectives in the sphere of primary school instruction were to absorb 681,000 new pupils in the educational system, but by the end of the Plan this figure will reach 1,181,000, of which 816,000 will be attending regular schools and the rest will be in Literacy Corps schools. The creation of the Literacy Corps was one of the revolutionary steps taken during the Third Plan, and it was most effective in promoting the primary education programme and achieving a more even distribution of schools between urban and rural areas.

46 - Secondary education expanded more than was forecast in the Third Plan, as a result of growing popular demand and the willingness of the private sector to invest in new schools. Secondary school enrolment, which was expected to reach 400,000 by the end of the Third Plan has in fact reached 658,000, while the number of students in vocational schools almost doubled. However, owing to the shortage of qualified teaching staff, the lack of proper teaching programmes for the branches of study required, poor co-ordination between existing technical and vocational schools and interested manufacturing organizations, the limited number of students graduating from such schools were not easily absorbed by the labour market, and although enrolments in vocational schools increased, the high rate of drop-outs meant that the number of actual graduates did not increase substantially.

47 - In the field of higher education, preference was given in the Third Plan to improvements in the quality rather than to increased enrolments. New state and private universities were founded and as a result the number of students increased from 24,600 to about 37,500. In terms of improved quality, such measures as the implementation of the full-time service law for university staff, the development of research institutes, improvements in teaching programmes and the introduction of modern scientific textbooks were all successful.

48 - Attention has been paid during the Third Plan to strengthening the activities of the private sector in the field of housing, and also to the construction of institutional housing, slum clearance, low-cost housing for low-income groups in the large cities, and to the need for Government buildings. The provision of housing facilities for the needy classes was timely and useful from the point of view of social welfare, but there seems no economic justification for the heavy investment in buildings for Government agencies and institutional housing, over and above Third Plan allocations, particularly after the recession had ended. Also, considering that the private sector is sufficiently interested and active in housing construction for the middle and upper income groups, it must be emphasized that the expenditure of public sector savings on this type of activity should not be preferred to more essential and useful projects, bearing in mind the need for investments by the public sector in productive and infrastructure undertakings.

49 - Urban development activity, which started in the Second Plan, has been continued in the Third Plan more intensely and on a wider scale. Allowing for priorities and available resources, the basic urban needs have been met in all Iranian cities, and there has been a rapid increase in urban standards of living. The implementation of more than 660 urban development projects during the Third Plan, following what was accomplished in the previous Plan, has completely transformed the appearance of Iranian cities. However, as comprehensive master city plans have not been prepared and in certain cases since the preliminary requirements for the implementation of these plans have not been met, activity in this field has not been undertaken in a logical manner based on comprehensive long-term studies. It is therefore essential that in the Fourth Plan, in addition to the preparation of such master plans, plans of operation for these master plans should also be prepared, and the relevant regulations and standards prepared and approved. Since activities during the Third Plan in the field of rural development and environmental sanitation in rural areas were rather limited and haphazard, it is also essential that the efforts of the Government as regards rural development should be concerted and intensified during the Fourth Plan.

50 - Effective measures were taken during the Third Plan for the extension of medical and health services. A fundamental achievement in this field was the creation of the Health Corps, which brought medical and health services to the village level. Another important measure was the establishment of a nation-wide network of medical and health facilities. The establishment of 250 rural clinics and the addition of 9,000 new hospital beds helped to expand medical and health services. Nevertheless, statistics relating to the number of patients and the mortality rate indicate that still more fundamental, comprehensive and speedy measures will have to be taken for the extension of health services, especially at the village level. The transfer of responsibility for health affairs to the people themselves through the establishment of health associations in most cities and

the preparation of the budget on a provincial basis can also be considered as important achievements of the Third Plan. One of the difficulties in the implementation of the health programme has been the shortage of technical staff, and especially of qualified medical and health assistants, and greater efforts must be made during the Fourth Plan for the training of such personnel.

51 - Important organizational changes and administrative reforms were carried out during the Third Plan. As the agency responsible for the approval of development programmes and projects and the financing of them, Plan Organization took action to co-ordinate policies through the High Planning Council, while, in principle, assigning the implementation of development projects to ministries and responsible agencies. By establishing the Central Bureau for Projects and Budgetting, an internal unit, Plan Organization has succeeded in creating a planning and budgetting system for the preparation of the Government's annual development and current budgets. In addition, during the Third Plan, the Organization for Administrative Affairs and Employment was established for the purpose of improving the employment regulations and organizational systems of ministries. Two* new ministries, the Ministry of Water and Power, and the Ministry of Development and Housing, were established to undertake specific functions which had formerly been carried out sporadically by various agencies. In order to implement the policy of decentralizing Government agencies and strengthening their technical staff, project and planning bureaus were formed in ministries, technical bureaus were established in provincial centres, and a breakdown of the budget by provinces in several fields was introduced. It is expected that if the principle of decentralization as regards the preparation and execution of projects within the framework of each ministry continues to the level of province and township, the nation's administrative machinery will become gradually more capable of discharging the heavy responsibilities, arising from long-term economic development, that lie ahead.

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* This text was prepared before the establishment of four new ministries: The Ministry of Natural Resources, the Ministry of Land Reform and Rural Co-operatives, the Ministry of Agricultural Products and Foodstuffs, the Ministry of Science and Higher Education.

CHAPTER 2

LONG-TERM ECONOMIC AND SOCIAL PROBLEMS AND POTENTIALS IN IRAN

INTRODUCTION

1 - Before the preparation of the Fourth Plan, a series of comprehensive and scientific studies had to be carried out regarding the economic and social future of Iran, so that the Fourth Plan could be drawn up with due consideration for the long-term problems and potential of the country within the framework of the long-term objectives of society. To carry out these studies a project was prepared and implemented two years ago whereby a special committee entitled "The Long-term Future of Iran" was formed. As the final results of these studies were not available when the Fourth Plan was being drawn up, this chapter will be confined to the treatment of the general long-term problems and potentials of the country's economy as seen at the beginning of the Fourth Plan. The solution of these problems and the utilization of this potential will to a great extent form the general framework of Iran's economic and social programmes over the next twenty years. Obviously, when the results of the detailed studies mentioned above are available the general course to be followed will become clearer.

ECONOMIC PROBLEMS OF IRAN ON THE EVE OF THE FOURTH PLAN

2 - The per capita income of Iran in 1345 has been estimated at about Rials 16,000 ($210). Although this is higher than that of many developing countries, there is a considerable gap between the per capita income of Iran and that of the advanced countries. Since the latter is also increasing, to enter the category of the advanced countries means striving for a higher growth than theirs. And in view of the existing gap between incomes of the rural population and the urban population, the Government's efforts in the years to come will be directed towards a more equitable distribution of income in favour of the rural population, as well as in achieving a rapid rate of growth. Increasing the income of the rural population is not only important in terms of social welfare and stability but also in raising the purchasing power and diversifying the demands of this group, one of the factors on which the health of domestic industry depends.

3 - According to the latest estimates, the population of Iran is growing by about 2.6 per cent a year. In view of the emphasis placed on health and better living conditions in the development plans, especially in rural areas, the mortality rate, especially among infants and children, will substantially decrease. At the same time, efforts are being made to establish multi-purpose family planning bureaus. The full results of these efforts, however, will only become apparent during the course of future Plans, since during the Fourth Plan they will be offset by the lower mortality rate. The relatively low level of income of the rural population and the attraction of city life and non-agricultural jobs has created an intense migration from rural areas to urban centres. The regulation of such movements of population in various areas, by means of creating numerous poles of development, is a basic problem to which attention must be paid in future Plans.

4 - In practice, the average productivity of capital, labour and entrepreneurship is considerably lower in Iran than in the advanced countries. This is most noticeable in the agricultural sector. The reasons for this low productivity in the agriculture sector, despite the tremendous efforts that have been made, are the following:

a. The shortage of water resources and the failure to utilize existing water resources to the full.

b. The ignorance on the part of farmers of modern methods of production and marketing.

c. The financial inability of farmers to purchase modern equipment or establish the required installations and the inadequacy of Government loans, other assistance and services to overcome this problem.

d. The lack of policies to guarantee agricultural income against price fluctuations, by means of a detailed pricing policy for agriculture.

e. The small size of agricultural units, which does not justify the economic use of modern machinery and production techniques.

The major reasons for low productivity in industry, in the broad sense, are the following:

a. The weakness of management.

b. The shortage of skills.

c. The shortage of working capital and the high price of imported raw materials, equipment and spare parts.

d. Low scales of production caused by the limitations of the domestic market and negligible export potential.

e. Lack of sufficient infrastructure for industrial growth (electricity for industrial use, roads, means of transportation).

5 - The existence of a considerable measure of unemployment, both apparent and concealed, leads to a wastage of production and growth potential. A basic problem of future Plans will therefore be the elimination of unemployment in both these forms.

6 - One of the most significant features of the Iranian economy in recent times is the importance of the oil sector in relation to other sectors of the economy. The oil industry plays a vital part in the Iranian economy in three respects: foreign exchange, Government revenue and Gross National Product. It is sufficient to note that in 1345 foreign exchange earnings from the oil sector accounted for approximately 65 per cent of external payments for the importation of goods and services, about 50 per cent of total Government revenue came from the oil sector, which also accounted for about 13 per cent of Gross National Product. Clearly, then, the economy of Iran is extremely dependent on the oil sector and one of the fundamental objectives of Iran's development programme will therefore be the diversification of production and exports as well as the provision of other important sources of Government revenue.

7 - Another important problem which has a far-reaching effect on the growth of the economy is the existence of legal and juridical problems. The whole economy is linked to the chain of individual legal relationships that are created every day, no matter how small an economic activity is involved. In all transactions and commercial agreements only a small portion is paid in cash, the rest being in the form of credit, payable on a deferred basis according to commercial bills. Unfortunately these instruments and the execution of agreements between individuals, which in the advanced countries facilitate economic affairs, are not yet used as in Western countries. If the statistics on protested notes are taken as an indication of the extent to which individuals discharge their financial obligations, it may be seen that many of these obligations are not met in time or even after delay, which interrupts the smooth running of the economy. This element of risk and danger of loss results in the price of goods and services being far higher than what it should be for both the public and the private sectors. The producer, who usually purchases the materials he requires on a non-cash basis, has to pay a correspondingly higher price for them, and when he sells, again usually not for cash, he in turn seeks a higher price for his product. The element of risk thus affects all phases of production and raises the price of goods in the country. The risk factor not only slows down the course of production, but also deeply affects investment and saving. In countries where affairs are run on capitalistic principles, the private sector contributes a great deal in putting capital to work, but the investor does not usually rely only on his own savings, but also uses the private savings of others by borrowing or forming joint-stock companies. The resulting regular flow of private savings to institutions that make the actual investments is one of the basic pillars of the economy of many advanced countries, whereas in Iran, because of the element of risk and the lack of effective and

prompt protection of shareholders' rights as against the board of directors of joint-stock companies, this process still has many shortcomings, and as a result, private savings are diverted into the purchase of land, speculation, the construction of luxurious private residences or overseas investments, and in short are used for purposes incompatible with investment needs and rapid economic growth.

The chief obstacle is the question of organization which manifests itself in the existence of complicated laws and the slow enforcement of justice and safeguarding individual rights. As long as individuals can only obtain their rights through official channels at the cost of heavy loss of time and money, it is natural that the maximum use will not be made of current or potential savings for the acceleration of economic growth. A fundamental measure that must be taken very seriously during the Fourth Plan is therefore to lay the foundations for and pursue vigorously the reform of the law and the judicial system so as to expand the security provided by the law.

8 - With the expansion of economic activity in the country, pressure will be brought increasingly on the existing administrative system. The acceptance of new and complicated responsibilities arising from the rapid increase in activity will necessitate the nation's administrative organization being staffed to a higher degree with trained and specialized personnel. It is equally important that a sense of responsibility and belief in social values are instilled in such staff and that the rules and regulations governing administrative relations and activities are revised to make them compatible with modern standards. At the same time the discharge of these new responsibilities requires education and prior training. To take an example, in cases where huge productive units such as those in the field of power generation, water, the steel and petrochemical industries, which have never existed in Iran on such scales as now, existing technical and administrative staff are probably not capable of running them unless they undergo special training courses. We cannot, therefore afford to ignore the question of staff training at all levels and in all government organizations, if large-scale development activity is to be successfully undertaken.

THE POTENTIAL OF THE ECONOMY ON THE EVE OF THE FOURTH PLAN

NATURAL RESOURCES

9 - Crude oil and gas – The existence of huge reserves has provided immense opportunities for overcoming the needs of the country in terms of income, production, employment and foreign exchange. What has been so far exploited from these reserves, however, has only been a small fraction of their potential and that of their derivatives. Countries importing crude oil, using modern scientific and technical know-how, produce thousands of new industrial products from oil and gas, and the complex of industries allied to oil forms an important part of their chemical industry, and hence their national industry. On the eve of the Fourth Plan, while efforts are being made to expand exports of crude oil and gas so as to meet part of the investment costs of expanding domestic industry as well as for further participation in the construction of oil refineries abroad, it is necessary to bring about the conditions whereby these resources can gradually be used in national industries, so that in the future oil and gas can be put to use as bases for a major part of the country's processing industries, the derivatives of which can be exported and thus contribute to the growth of the Iranian economy.

10 - Oil products – Considering the importance that derivates from oil have achieved in the world today in the manufacture of thousands of new products, a vast potential exists for the country to utilize these resources even during the short period of the Fourth Plan, including the creation of a petrochemical industry, which is of the utmost importance. If Iran is to gain a position of relative importance in terms of production among the countries of the world, there is no doubt that the chemical industry, especially the petrochemical and related industries, is the most important one for Iran to specialize in and the one in which it must embark on production on an international scale. It is equally clear that at present the country lacks the necessary specialized personnel and capital for large investments in this field, but this is also the case with other basic industries. Comparatively speaking, however, the existence of huge oil and gas reserves in Iran is an outstanding feature of the economy, and leads one to believe, first, that all efforts towards the training of manpower and higher education

and research must lay special emphasis on chemical and petrochemical fields, second, that in allocating development funds, a substantial share should be given to investments connected with the production and expansion of petrochemical products, third, that the public sector should be encouraged and advised how to invest in this field, and fourth, that foreign investors with large amounts of capital, technical know-how and access to world markets should be encouraged to invest in this field in Iran.

11 - Mining – Although Iran's mineral deposits have not yet been completely prospected, it is nevertheless probably that in parts of the vast area of the country, important undiscovered mines exist. Hitherto the practice has been to export minerals in their crude form, at very low prices and then to import the same materials in processed or semi-finished form at much higher prices. It is therefore necessary first to make greater efforts to obtain more complete information about the various mineral deposits of the country and secondly to establish concentrating and processing industries and even to produce in Iran semi-finished and finished products of minerals which exist in sufficient quantity, thus using these deposits in the further industrialization of the country.

12 - Water – Even though the water resources of Iran are scanty, the limited resources that do exist are not properly or sufficiently utilized. There is no doubt that the optimum utilization of existing resources, better control of surface water and utilization of groundwater resources could lead to an appreciable increase in the area of land under cultivation. In view of the fundamental importance to the country of increasing the production of food and raw materials for industry, the utilization of existing and potential water resources is an essential target for investment. In order to achieve the maximum utilization of water resources, particular care and attention are essential if the fullest use is to be made of this precious national resource by introducing modern irrigation and other techniques. Once existing water resources are controlled for agricultural use, it will also be possible to use them to generate electricity and for industrial use, although these purposes enjoy a lower priority.

13 - Marine resources – The Persian Gulf and the Sea of Oman are among the richest resources of fish and crustaceans in the world. These huge resources, however, are not being sufficiently exploited at present and their full exploitation is still a long way off. An increase in fishing and shrimping will help to increase the national product and improve the living conditions of the inhabitants of the Persian Gulf littoral, and will also be an important factor in overcoming shortages of food and protein deficiencies.

MANPOWER

14 - Manpower is the most important resource for the economic and social growth of any country, both in terms of quantity and quality (the nature and level of specialization and skills). The requirements of the country for specialized and skilled manpower differ at various levels, and each has its own problems. At the higher level it must be noted that at the present time some eight to nine thousand Iranians graduate each year from institutions of higher education, both in Iran and abroad, about three thousand of whom from foreign universities. If circumstances are not created whereby all these people can find employment suited to their field of study, whether in teaching or research institutions, or in economic, and social and administrative organizations, both private and Government, it is highly possible, in view of the favourable conditions in the world labour market for their attraction, that the country will be deprived at least for a long time to come, of their knowledge, which is one of the most important elements in the acceleration of economic growth. In such a case the major part of the investment that the country has made in educating them will be wasted, and also, as the need arises, heavy costs will be incurred in using the skills and services of foreign experts. The utilization of educational, social, economic and technical opportunities that these able brains present to the country means that great care must be taken in the choice of academic fields by students, both in Iran and abroad, and that students of outstanding ability should be identified and attractive circumstances and facilities should be provided to use their talents. Intelligence, like capital, has a tendency to escape, and there is strong competition in the world to attract it. Incidentally, intelligence is the only valuable commodity that an

attracting country acquires at no cost to itself.

Apart from graduates of institutions of higher education another important resource of manpower which must be fully utilized for the economic development of the country is secondary-school graduates, who because of inappropriate educational programmes cannot at present meet the varied requirements of the country for middle-level technical and administrative positions. Improvements to educational programmes can lead to this resource being utilized for the benefit of the country's economy.

CAPITAL AND SAVINGS

15 - Capital, which is one of the basic elements of production, can be considered from two standpoints. On one hand we can examine how and to what extent existing capital which has been transformed into factories, buildings, roads and so on has been utilized, and on the other, we can consider the formation of new capital, through domestic and foreign savings. Although the capital, and hence the productivity of the economy, that is available in Iran is still small in comparison to that of the advanced countries, the level of investment has increased rapidly in recent years, so much so that, except for the years of economic recession, between 18 and 20 per cent of Gross Domestic Product has been invested. (Chapter One, Table 7) .

At the same time it must be mentioned that there are various indications that some available capital is not effectively utilized and that efforts to reduce the interval between the start of investment and the time of productivity and to increase the productivity of available capital could enable the productivity of the economy to rise substantially, without considering new investment. In terms of new capital formation, it must be noted that the opportunities in Iran for utilizing domestic savings are greater now than they were in the past. For example, in 1345 only 16 per cent of Gross National Product was saved for investment, while in 1342 (a year of relative recession), domestic savings formed more than 18 per cent of Gross National Product (Chapter One, Table 9).

In future, therefore, this potential must be used for investment to a greater degree, and a larger proportion of savings should be directed towards productive investment, and towards investment with a higher rate of productivity, than has been the case in the past. Furthermore, the political stability that the country has enjoyed during the recent years and expects to enjoy in the future should mean that foreign savings enter the country in the form of investments or loans. The encouragement and attraction of foreign capital will also enable the fullest use to be made of foreign technology, capital and markets by industries and services in which, because of the scarcity of domestic capital, the complexity of technology and the limitations of the domestic market, owners of domestic capital cannot invest, to the benefit of Iranian society.

A further point is that preventing the wastage of capital, which is a scarce commodity in Iran, and channeling it into activities which have the highest priorities for the economic and social development of the country, will set the stage for its increased productivity and the further utilization of all resources for the growth of the economy.

OTHER RESOURCES

16 - Tourism – Rising incomes and the expansion of the leisured classes in the advanced countries and constant improvements to means of communication have made tourism an economic activity in which rapid development is taking place. Every country in the world, therefore, especially those of historic interest, is trying to attract more foreign tourists by creating the necessary facilities and thus increase the export of its goods and services.

Iran has a tremendous potential in the field of tourism which has not yet been adequately exploited. The existence of totally contrasting and varied climatic regions can attract tourists all the year round, the northern regions in the summer and the mountainous snowy areas for winter sports in the winter. The warm regions of the Persian Gulf, such as the islands of Minu and Kish, are also ideal winter resorts. Furthermore, the existence of historical buildings and other remains, spas and religious shrines combines to attract tourists of every type. The increase in the number of tourists in recent years clearly indicates the wealth of this potential. In 1341, only 74,000 tourists entered Iran, and in 1345 the figure reached 196,000. By drawing up proper programmes and establishing the necessary facilities, the figure can reach one million during the next decade.

17 - New markets – In view of the fact that industrial growth in various countries, especially in developing countries, has not followed the same pattern and in some countries more emphasis has been placed on the expansion of heavy industries as opposed to consumer industries, favourable opportunities exist for countries like Iran, which on one hand needs to import heavy machinery and on the other is able to export certain types of consumer goods. In this way we can meet a large part of our requirements of imported capital goods by expanding exports of domestic products to the supplying countries. The measures taken during the latter part of the Third Plan to sell such products as natural gas, shoes and textiles in return for a steel mill and other machinery, can be considered the start of this new economic trend, which will be pursued during the Fourth Plan with even greater vigour.

The markets existing in the countries south of the Persian Gulf also have an important and profitable potential for the expansion of exports and consequently for the country's industrial growth. The proximity of these markets and the resulting low transport costs for Iranian products, especially in the case of heavy goods such as cement, to these markets, has resulted in some very suitable opportunities for the expansion of Iranian exports to these countries, a situation which must be fully exploited. Another possibility is regional economic co-operation, which can lead to greater scope for the Iranian economy in terms of both production and marketing. Already joint development projects have been undertaken within the framework of Regional Co-operation for Development (R. C. D.) and in future, in addition to this kind of joint activity, opportunities for economic co-operation with other developing countries must also be carefully studied and gradually implemented.

CHAPTER 3

OBJECTIVES AND PRINCIPLES OF THE FOURTH PLAN

GENERAL OBJECTIVES

1 - The basic objective of all plans, whether of short or long duration, is the provision of better living conditions for every individual in that society. In various phases of economic development, however, specific problems will have to be considered, and objectives and policies must be chosen appropriate to each. The fundamental matter is to identify and understand these problems correctly and in time, and to evaluate the means whereby they can be solved.

2 - During the First and Second Plans, the mobilization of the country's human and material resources was directed chiefly towards the reconstruction of the economic infrastructure. During the Third Plan, while the work of strengthening the economic infrastructure continued, the foundations for establishing basic industries, such as steel and petrochemicals, were laid, and at the same time the social structure of Iran was fundamentally strengthened and made to conform to the conditions necessary for securing sustained and rapid growth. In this connection, the most important single achievement was the abolition of the landlord and peasant relationship.

3 - To strengthen the foundations of the revolutionary changes of recent years and to make the maximum use of the new social order so as to reach the advanced stages of a prosperous society, one that is based on a strong economy and can meet its basic requirements with the minimum dependence on other countries and in which equal opportunities exist for individual talents and initiative so that these talents may be used for the maximum advancement of society, the general objectives of the Fourth Development Plan will be as follows:

a. An increase in the rate of economic growth and in national income by gradually increasing the relative importance of industry, raising the output of capital, using advanced techniques in all fields of activity, and expanding scientific and applied research, especially for the solution of problems of economic growth.

b. More equitable distribution of income by providing employment, extending social and welfare services to all, expanding local development and rehabilitation activity, especially in rural areas.

c. A decrease in the dependence on foreign countries in meeting basic requirements by increasing the rate of growth in the agriculture sector so as to achieve the maximum supply of foodstuffs for the population and of raw materials for domestic industry, as well as by supplying industrial goods for consumption by the Iranian public.

d. The diversification of export goods, expansion of existing foreign markets and penetration of new foreign markets.

e. Improvements in administrative services by the introduction of basic changes in the administrative system and the extension of advanced managerial techniques to all ministries, public and private organizations, and strengthening the country's defences so that the Government, while undertaking far-reaching social and economic reforms, is able to discharge the heavy responsibilities it has assumed.

QUANTITATIVE OBJECTIVES IN THE OVERALL ECONOMY

4 - In order to increase the rate of economic growth a target has been established for increasing Gross National Product during the Fourth Plan by 57 per cent, an average annual increase of about 9 per cent. This will raise Gross National Product from Rials 520 billion at the end of the Third Plan to about Rials 815 billion at the end of the Fourth Plan. With an annual population growth of 2.6 per cent, gross per capita product will rise from Rials 19.5 thousand ($257) at the end of the Third Plan to Rials 26.9 thousand ($359)at the end of the Fourth Plan, and per capita income will rise from

TABLE 1 — QUANTITATIVE OBJECTIVES FOR NATIONAL INCOME AND CONSUMPTION AT THE END OF THE FOURTH PLAN AS COMPARED TO FIGURES FOR 1344 AND ESTIMATES FOR 1346 (BILLIONS OF RIALS)

		1344	1346 (estimated)	1351	Average annual growth from 1344-1351 (per cent)	Growth during Fourth Plan (per cent)	Total Fourth Plan
1.	Gross Domestic Product (2 + 3 — 4 + 5)	476.1	578.0	926.4	10.0	60.0	
2.	Fixed domestic investment	83.8	109.0	206.0	13.7	90.0	810.0*
3.	Export of goods and services	99.0	152.0	313.9	18.0	107.0	
4.	Import of goods and services	77.2	111.0	205.7	15.0	85.0	
5.	Consumption:	370.5	428.0	612.2	7.4	43.0	
	Private:	(293.5)	(334.0)	(462.2)	(6.7)	(38.0)	
	Public:	(77.0)	(94.0)	(150.0)	(10.0)	(61.0)	
6.	Net utilization of foreign loans and capital, changes in foreign exchange reserves	17.0	17.0	2.7			67.0
7.	Domestic saving (2 — 6)	66.8	92.0	203.3			743.0
8.	Gross National Product (5 + 7)	437.3	520.0	815.5	9.3	57.0	
9.	Indirect Taxation	30.2	37.0	57.0			
10.	Amortization of fixed capital	30.4	37.0	52.0			
11.	National income (8 – 9 – 10)	376.7	446.0	706.5	9.3	58.0	
12.	Total population (millions of persons)	25.3	26.7	30.3	2.6	14.0	
13.	Gross per capita Product (8 ÷ 12)						
	(thousands of Rials)	17.3	19.5	26.9	6.5	38.0	
	Gross per capita product (dollars)	228.0	257.0	355.0			
14.	Per capita income (11 ÷ 12)						
	(thousands of Rials)	14.9	16.7	23.3	6.6	39.0	
	Per capita income (dollars)	197.0	220.0	307.0			
15.	Per capita consumption (5 ÷ 12)						
	(thousands of Rials)	14.9	16.0	20.2	4.4	26.0	
	Per capita consumption (dollars)	197.0	211.0	266.0			

* Does not include $633 million required for increasing foreign exchange reserves.

Rials 16.7 thousand ($220) at the end of the Third Plan to Rials 23.3 thousand ($307) at the end of the Fourth Plan. The fixed investment required to achieve this target is estimated at a total of Rials 810 billion during the Fourth Plan, of which Rials 743 billion will be met from domestic sources and Rials 67 billion, or 8.2 per cent of the total, from external sources. The ratio of savings to Gross National Product will also increase from 18 per cent to 25 per cent during the Plan period. The export of goods and services (including oil) will increase from about Rials 152 billion at the end of the Third Plan to about Rials 314 billion at the end of the Fourth Plan, an average annual increase of 15.6 per cent. Imports of goods and services will increase from about Rials 111 billion at the end of the Third Plan to about Rials 205.7 billion at the end of the Fourth Plan, an average annual growth of 13.1 per cent. (Table 1).

5 - To achieve these objectives of growth and investment, the increase in consumption must not exceed 10 per cent per year in the public sector and 6.7 per cent in the private sector, and this will be the aim of Government policy during the Fourth Plan.

PRINCIPLES CONCERNING SELECTION OF SECTORAL PRIORITIES AND RATES OF GROWTH

6 - The following principles have been used in assigning priorities to various sectors and selecting their rate of growth in the Fourth Plan.

a - Emphasis on industrial investment since: (i) it has a higher rate of return as compared to other sectors (ii) industrial growth will result in the extension of advanced production techniques and better management in other fields of economic activity (iii) unlike the agriculture sector, it is less affected by natural and climatic conditions (iv) industry is more capable of adapting the nature of its products to the requirements of the economy.

b - Emphasis on agricultural investment. It should be pointed out that success in achieving rapid industrial growth necessitates the expansion of the domestic and foreign markets for various products and the elimination of possible bottlenecks in the supply of raw materials and capital goods. The rapid expansion of domestic markets in Iran, where the majority of the population is still active in the agriculture sector, cannot be attained except by the rapid increase of agricultural production. Furthermore, if the constantly increasing requirements for foodstuffs and agricultural raw materials for industry are not met through domestic production, the foreign exchange resources of the country will have to be utilized at a critical period of social and economic development thus restricting the ability to import capital goods and thereby limiting economic growth. In view of these premises, therefore, efforts to achieve the maximum increase in agricultural production will be one of the fundamental considerations of investment policy in the Fourth Plan.

c - Continuation of investment in economic infrastructure - First of all, the attainment of an accelerated rate of growth in industry and agriculture is not possible unless existing bottlenecks in the economic infrastructure are eliminated through the construction and expansion of communication facilities between centres of production and centres of consumption, the provision of reliable and cheap energy, improvements in the quality of labour and manpower by raising standards of education and health, and any other measures to eliminate other obstacles to growth. Furthermore, the creation of a sound economic and social infrastructure is a factor which in itself stimulates further productive activity.

d - Increasing productivity -- Although a more rapid rate of increase in industrial and agricultural production requires increased investment in these sectors, raising the productivity of existing capital, in both productive and infrastructure fields, which is currently at a very low level in many instances, will also be emphasized.

To achieve this goal, appropriate measures such as complementary investment, improvement of management, elimination of legal and administrative bottlenecks and administrative reorganization will be taken to assure the complete and proper exploitation of existing facilities created by the Government. The private sector will also be assisted and advised regarding the use of better techniques of production and of increasing industrial manpower skills.

On the basis of the above principles and calculations concerning domestic consumption, imports and exports and technical opportunities for increased production in various fields, the general objectives in the field of production are as shown in Table 2.

SUMMARY OF QUANTITATIVE OBJECTIVES IN PRODUCTIVE SECTORS

7 - Agriculture – The total value of production of the agriculture and animal husbandry sector will increase from Rials 112.6 billion in 1344 to about Rials 158.5 billion in 1351, a total increase of 28 per cent during the Fourth Plan period and an average annual growth rate of about 5 per cent. This rapid rate of growth has been established with due regard to the rapid increase in population, the increase in per capita income during the Fourth Plan and the consequent increase in demand for agricultural products, and also with regard to the requirements of industry for raw materials. The maximum utilization of land already under cultivation, the cultivation of virgin land, the establishment of large agricultural units and joint-stock farming companies, the expansion of animal husbandry, the wider application of extension services and employment of modern techniques, will enable this level of growth to be achieved.

Production targets for the main agricultural and livestock products are as follows:

Product	Growth in production value at the end of the Fourth Plan as compared to 1344 (per cent)
Cereals	33
Industrial crops	64.3
Fresh and dried fruit	44.6
Vegetables, kitchen-garden crops and potatoes	45.2
Grains	39.7
Fodder plants	187.8
Forest products	30
Meat	50.4
Milk	25
Animal by-products	17
Other agricultural products	18
Other livestock products	38
Average growth for all products	41

8 - Industry and Mining – The total value of production of the industrial sector will be raised from Rials 159 billion in 1344 to about Rials 367 billion in 1351. This sector will achieve a total growth of 100 per cent during the Fourth Plan, or an average annual growth rate of 15 per cent.

Production targets for the main branches of this sector will be as follows:

Industry	Growth in production value at the end of the Fourth Plan as compared to the year 1344 (per cent)
Food-processing	104
Textiles, clothing and leather	109
Metal	124
Mechanical, electrical and automotive	223
Petrochemicals	891
Cellulose	131
Handicrafts and carpet-weaving	76
Pharmaceuticals	602
Average growth for all industries	135

The overall growth target for mining will be 121 per cent, an average annual growth of about 17 per cent. During the Fourth Plan, full knowledge of the mineral resources of the country will be acquired and mineral products will be prepared for export in concentrated or semi-processed form and the copper requirements of the country will also be met.

9 - Oil and gas industry – The growth in production in the oil sector in the last year of the Fourth Plan over 1344 will be 197 per cent, an average annual growth of approximately 16.8 per cent. On the basis of the value of production in this sector, the annual growth will be about 15 per cent. Total domestic consumption will increase by about 86 per cent and total refinery capacity will increase by about 48 per cent over the beginning of the Third Plan. Utilization of natural gas will reach about 23 billion cubic metres, of which 21 billion cubic metres will be exported and the rest will be for domestic consumption. Domestic consumption of liquefied petroleum gas will increase from 44 thousand tons to 103 thousand tons.

OBJECTIVES OF MAJOR ECONOMIC SECTORS BASED ON PRODUCTION VALUES

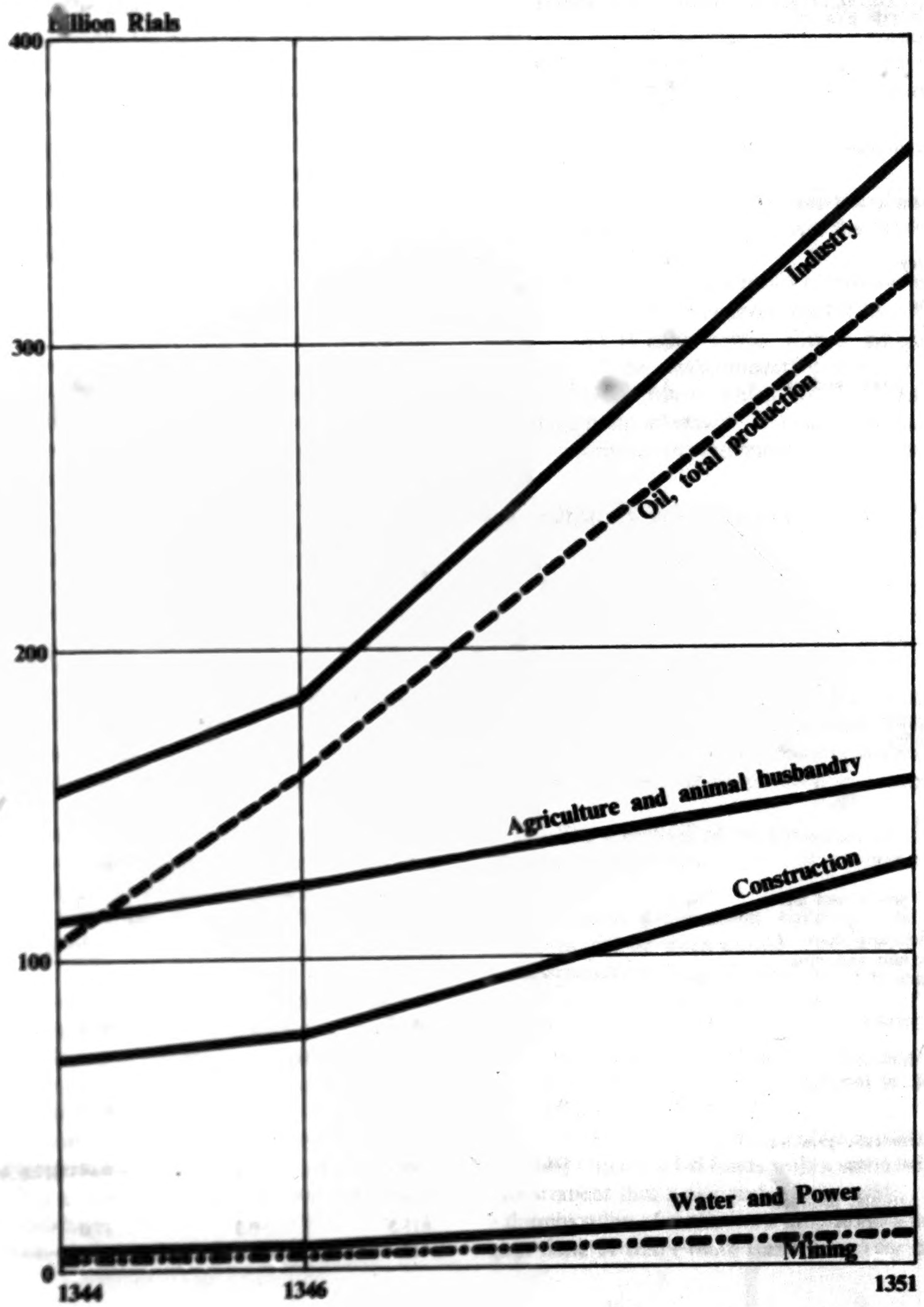

TABLE 2 — OBJECTIVES OF MAJOR ECONOMIC SECTORS (BILLIONS OF RIALS)

		Total value of production in 1344	Total value of production in 1346* (esimated)	Total value of production in 1351	Average annual growth 1344-1351 (per cent)	Growth in Fourth Plan period (per cent)	Average annual growth in Fourth Plan period (per cent)
1.	Agriculture and animal husbandry	112.6	124.0	158.5	5.0	28.0	5.0
2.	Industry	156.0	183.0	367.0	13.0	100.0	15.0
3.	Mining	3.2	4.2	9.3	16.5	121.0	17.2
4.	Construction	60.9	76.0	130.5	11.5	72.0	11.4
5.	Water, power and gas	5.0	6.3	14.8	16.5	135.0	18.6
6.	Oil (total production)	107.7	160.0	320.0	16.8	100.0	15.0

TABLE 2a — OBJECTIVES OF MAJOR ECONOMIC SECTORS

		Added value in 1344	Added value in 1346	Added value in 1351	Average annual growth 1344-1351 (per cent)	Growth in Fourth Plan period (per cent)	Average annual growth in Fourth Plan period (per cent)
1.	Agriculture and animal husbandry	102.0	112.0	139.0	4.5	24.0	4.4
2.	Industry	53.1	66.6	122.7	12.7	84.0	13.0
3.	Mining	2.8	3.4	6.8	13.5	100.0	14.9
4.	Construction	24.4	30.0	47.9	10.1	60.0	9.9
5.	Water, power and gas	4.6	5.8	12.6	15.5	117.0	16.8
6.	Oil (including share of Consortium and other companies)	85.7	127.0	258.9	17.2	103.8	15.3
7.	Other sectors	173.2	196.2	281.7	7.2	43.5	7.5
8.	Gross domestic product, at factor prices	445.8	541.0	869.6	10.0	61.0	10.0
9.	Gross domestic product, at market prices	476.1	578.0	926.4	10.0	60.0	9.9
10.	Gross national product, at market prices	437.3	520.0	815.5	9.3	57.0	9.4

10 - Water -- The objective of the Water Plan is to increase the utilization of water for irrigated agricultural land from 29 billion cubic metres in the first year of the Plan to about 33 billion cubic metres in the last year and also to regulate the flow of about 2.4 billion cubic metres of water which is at present utilized but unregulated. As a result of the execution of the Plan about 400 thousand additional hectares of land will be made arable and the irrigation of about 500 thousand hectares of land currently under cultivation will be regulated.

11 - Power -- The consumption of electric power will rise from 4500 million kilowatt hours in 1346 to 12,000 million kilowatt hours at the end of the Fourth Plan. The total increase in consumption will be 166 per cent, an average annual increase of about 22 per cent. This target will be achieved by increasing the country's total generating capacity to 1,621 megawatts and expanding the power transmission network to about 3,850 kilometres of lines of various voltages. The per capita consumption of electricity, which was about 175 kilowatt hours at the end of the Third Plan, will rise to about 400 kilowatt hours at the end of the Fourth Plan.

SUMMARY OF QUANTITATIVE OBJECTIVES IN INFRASTRUCTURE SECTORS

12 - Communications -- In the field of communications the quantitative objectives of the Plan are as follows:

- the completion, repair, asphalting and resurfacing of 4,498 kilometres of existing roads, the construction or start of construction of about 4,662 kilometres of main asphalted roads and the construction of about 12,500 kilometres of provincial, regional and rural gravel roads.
- the construction of about 1,550 kilometres of new main and branch railway tracks, together with related facilities, and relaying of old track as necessary.
- increasing port capacity by 3 million tons, an increase of 75 per cent over existing capacity.
- the completion of construction and provision of equipment for 17 airports and the construction of 6 new airports, including a new international airport for Tehran and one for Esfahan.
- the expansion of meteorological and cartographic services by the establishment of 1300 rain - gauging stations, 200 climatological stations, 5 synoptic stations and the provision of facilities for marine mapping and depth measurement surveys in Iran's offshore areas.

13 - Telecommunications -- The objectives of the Telecommunications Plan are:

- the addition of 300 thousand new telephone lines, an increase of about 125 per cent over the number of existing lines.
- the extension of the country's microwave network to provide simultaneous connections between 7 provincial capitals and 16 other towns, with a 960 - channel exchange, and the establishment of subsidiary networks over numerous routes which are important from the economic point of view.
- the expansion of international telecommunication links.
- the expansion of postal services in towns and villages down to the level of villages with a population of 100, and improvements in postal distribution so that there are two deliveries a day in major towns and one in other localities, and the maximum time-lag between posting and delivery of mail does not exceed 24 hours in major towns and 5 days in country districts.
- the strengthening and expansion of the country's radio networks so that the total strength of the country's transmitters increases from 3,540 kilowatts to 4,840 kilowatts.
- the establishment of 10 television stations in 10 cities.

14 - The objectives of the Construction and Housing Plan are as follows:

a. As regards Government buildings, the following measures will be taken during the Fourth Plan:

- the completion of semi-finished public buildings;
- meeting the essential construction needs of the Armed Forces;
- the construction of administrative buildings for ministries and various Government agencies in Tehran and the provinces;
- the construction of certain public buildings out of Housing Organization funds with a commitment by the Government that a fair rent will be paid;
- the allocation of credits on a project basis to the Mortgage Bank of Iran (Bank Rahni Iran) for the granting

of loans to individuals or private companies for the construction of public buildings;
- the allocation of credits on a project basis to the Mortgage Bank for the granting of loans to private companies for the construction of schools.

b. As regards housing the objectives of the Plan will be as follows:
- the construction of 250 thousand residential units by the private sector;
- the construction, by the public sector, of 6000 low-cost residential units for low-income groups and those at present living in substandard accommodation;
- the construction by the public sector of about 8 thousand units of institutional housing, particularly in border areas, hardship areas or localities where private investment is not available;
- increasing the capital of the Mortgage Bank by about 40 per cent;
- the construction of 760 houses for engineers and staff engaged on petrochemical projects (as part of the Petrochemical Plan) ;
- the construction of Shahr Ahan (Iron City) with a population of 5,000, Shahr Fulad (Steel City) with a population of 8,000 and Shahr Zoghal (Coal City) with a population of 50,000 (as part of the steel plan);
- the construction of 250 model rural houses (as part of the rural development plan);
- the provision of credits for the granting of loans to inhabitants of rural areas (as part of the rural development plan);
- the allocation of credits, on a project basis, to the Mortgage Bank for the granting of loans to industrialists for the construction of about 10,000 houses for workers;
- the allocation of credits, on a project basis, to the Mortgage Bank for the granting of loans to individuals or private groups in order to encourage them to construct moderately-priced houses for Government employees.

15 - The objectives of the Fourth Plan in the field of rural development consist of:
- the provision of potable water;
- the provision of piped water;
- the establishment of facilities for the collection of garbage and refuse for use as fertilizer or disposal;
- the construction of bath-houses;
- the construction of mortuaries and public facilities;
- environmental and rural reconstruction;
- the construction of rural model houses and assistance in rural housing projects;
- reconstruction of villages in agricultural poles. These operations will be carried out in villages that possess characteristics suitable for development and conversion into healthy self-sustained social and economic units.

16 - The objectives of urban development consist of:

a. Improvement of municipal administration
- the establishment of a municipal training centre in Tehran and twelve subsidiary centres in major provinces;
- the training of 4,500 existing municipal staff;
- the training of 1,500 new recruits for municipal employment;
- the preparation of maps and forms of particulars for the purpose of assessing and collecting taxes on buildings in 50 major cities;
- strengthening and re-equipping municipal engineering bureaus in provinces and governorates-general.

b. Assistance in implementation of municipal development projects
- the completion of projects not completed in the Third Plan;
- the establishment of Urban Development Funds and the provision of their capital and revolving funds for the granting of development loans;
- the making of outright grants to municipalities through the mechanism of the Urban Development Funds for the construction of water supply systems in every town in Iran that has not yet been provided with such facilities, and the construction of sewage disposal systems in 30 towns.

c. Master Plans
- the completion of master plans not prepared in the Third Plan;
- the preparation of master plans for 46 towns.

SUMMARY OF THE QUANTITATIVE OBJECTIVES OF THE PLANS FOR SOCIAL AND WELFARE SERVICES.

17 - The objectives of the Fourth Education Plan will be :

- increasing the literacy rate in the 10 - 45 age group from 35 per cent at the end of the Third Plan to 60 per cent at the end of the Fourth Plan;
- the provision of facilities for compulsory primary education for 93 per cent of school-age children in towns and 55 per cent of school-age children in all rural areas, resulting in an increase in the number of primary school pupils from 2.9 to 3.7 million;
- the provision of educational facilities for approximately 872 thousand students in the educational guidance period (grades 6,7 and 8) ;
- the provision of educational facilities for approximately 376 thousand students in the academic course of secondary education;
- the provision of educational facilities for approximately 80 thousand students in the combined vocational and general course;
- the provision of educational facilities for about 50 thousand in the vocational, technical and agricultural training course;
- increasing the number of university students from about 37 thousand at the end of the Third Plan to about 60 thousand at the end of the Fourth Plan;
- the training and engagement of about 35,700 primary school teachers, 40 thousand Literacy Corpsmen for primary teaching, 10,826 instructors for the new guidance course, 7,540 secondary school teachers of academic subjects, 2,670 teachers for the combined academic and general course, 2,480 vocational teachers and 1,000 university teaching staff;
- the extension of special centres for labour training and skill rehabilitation for the training of 50,000 workers and also the provision of on-the-job training for about 14,000 in the field of industrial management, training during the period of their military service of about 51 thousand soldiers in agricultural and industrial subjects and training of about 292 thousand farmers;
- the expansion of scientific research with due regard to economic priorities and the formulation of a scientific research policy by means of a special council affiliated to the Ministry of Science and Higher Education.

18 - The quantitative objectives of the Health Plan consist of:

- the establishment and completion of 145 first, second and third category health centres in various parts of the country;
- the implementation of a health and family planning programme for 500,000 potentially fertile women;
- the addition of 14,500 hospital beds and the establishment of 20 combined medical and health centres so that the ratio of beds to population increases from 11.7 beds per 10,000 at the end of the Third Plan to 15 beds per 10,000;
- improvements to and completion of treatment facilities and nursing for 5,600 existing hospital beds and complete reconstruction of 2,600 hospital beds beyond immediate remedy, so as to improve the quality of medical services;
- the addition of 500 rural clinics and 50 teams of Health Corpsmen to the existing number which will increase the availability of out-patient services in rural areas from 50 per cent to 65 - 75 per cent of the population;
- the establishment of 5 nursing schools, 10 schools for assistant nurses, 3 schools for health assistants and courses of instruction for medical and health assistants.

19 - The quantitative objectives of the Tourism Plan for the creation of facilities are as follows:

- the provision of 8,000 hotel beds and 5,000 rooms;
- the construction of 40 modern cafés;
- the completion and equipment of 100 roadhouses;
- the constrution of guest-houses in 60 towns;
- the establishment of 20 tourist camps with restaurants and other facilities;
- the construction of 3 youth hostels each capable of accommodating 400 people;
- the establishment of 6 tourist centres on Minu island, at Karand, Kelardasht, Gajereh, Larijan and Sarein equipped with hotels, motels, restaurants, sports facilities, swimming pools, shops and spa facilities;
- the construction of accommodation for pilgrims to Mashhad and Ghom (500 rooms in all);
- the provision of equipment for 10 forest parks.

20 - The quantitative objectives for social welfare under the Plan will be as follows:

- an increase in the number of workers covered by social

insurance from 455,000 to 1,000,000, extension of insurance of Government employees to 400,000 persons, extension of life and disability insurance to 1,500,000 persons at the rural level and extension of agricultural product insurance to 100,000 families;
- the establishment of 250 multi-purpose family welfare centres;
- the establishment of 300 social and social service centres in rural areas;
- the establishment and completion of 50 multi-purpose youth centres and 285 sports centres;
- the implementation of 12 projects for physical, psychiatric and social rehabilitation;
- the training of 850 social workers, at the graduate and post-graduate level, 1,400 persons in fields relating to welfare activities at the post-secondary education level, and 1,300 at the secondary school level, and the extension of research in the field of social problems;
- the construction of 20 special workers' welfare centres.

21 - The quantitative objectives of the Plan for Culture and the Arts will be as follows:
- an increase in the number of art teachers at the primary, secondary and university level and other staff of art colleges and centres of fine arts from 625 to 1,865;
- an increase in the number of university students of fine arts from 845 to 1,345;
- the expansion of activities in the promotion of art and culture, the provision of incentives for artists, audio-visual activities, the administration of libraries and museums, archaeological exploration, the preservation and restoration of historic buildings (among other purposes to attract domestic and foreign tourists) and other qualitative improvements.

EMPLOYMENT OBJECTIVES

22 - The objective of the Fourth Plan as regards employment is the creation of maximum full-time productive employment for the purpose of:

a. absorbing those seeking employment during the period of the Plan who will enter the labour market together with new groups of working age;

b. gradually converting unproductive or low-production jobs into stable and productive employment;

c. providing the necessary economic and social foundations for the realization of full employment during subsequent Plans and at the same time establishing conditions conducive to a more even distribution of the active population of the country in the main sectors of activity and at various levels of skill required for the attainment of rapid and sustained economic growth.

In short, on this basis, the employment objective during the Fourth Plan will be focussed on the establishment of qualitative and quantitative equilibrium in the supply and demand of manpower.

23 - Quantitatively, as regards the supply of manpower, it is estimated that in the Fourth Plan the working-age population (12-64 years) will increase from 14.9 million in 1346 to 17 million at the end of 1351. Of the latter figure, approximately 9 million will be inactive and 8 million active.

As regards demand, it is expected that with the completion of the investment envisaged under the Fourth Plan, a total of approximately 7.9 million will be employed and there will be an appreciable drop in the level of unemployment.

24 - Qualitatively, in view of the extent and gravity of the problem, especially since it will not be possible to obtain the required professors and skills needed in all branches of activity during the Fourth Five-year Plan solely through the agencies responsible for education in the country, the training facilities will have to be provided in all major productive organizations in the country so as to meet their special needs for various types of qualifications and skills.

25 - At first sight it seems that the objective of a more equitable distribution of income is a purely social one tantamount to the transfer of income from one class to another or the allocation of a greater proportion of national resources to low-income groups without their contributing a proportional share to the national product. In the framework of classic economic thought this pattern of allocation of national income is uneconomic and it is only done to satisfy purely social and political purposes. Advancements in planning thought,

however, have opened new horizons to planners. In long-range planning the problem of transforming the existing economic and social structure of a country into a modern progressive one is propounded. It is obvious that under the present circumstances of the developing countries the existing pattern of production and the present contribution of production factors and the participation of various social groups in the national product leaves much to be desired and does not provide for the maximum exploitation of production opportunities. The wide gap that exists both between the incomes of different social groups and between the incomes of the urban and rural population not only limits the domestic markets for industry, but also prevents the optimum utilization of the talents of the rural population and other low-income groups for the progress of the whole country. In fact, it should be stressed that while a more equitable distribution of income is, in the short run, a social objective, in the long run it amounts to a policy for increasing the purchasing power of the low-income groups and as a consequence increasing the opportunities for industrial growth, utilizing creative human forces to the full and providing the optimum level of economic and social growth. Furthermore, this policy will ameliorate social discontent and will guarantee a healthy political milieu suitable for the stimulation of interest and confidence in the public to participate in development efforts. On the basis of this analysis, therefore, the emphasis of this objective can only be interpreted as sacrificing a part of existing production potential for the sake of greater production in the future. Determining the level of this sacrifice is primarily a political decision and is subject to the political philosophy of a country; nevertheless, limits should be assigned to it in accordance with the aspirations of the present generation as well as with short-term and medium-term economic objectives.

26 - Land reform, workers' participation in the net profits of factories, the creation of the Literacy Corps, Health Corps and the Extension and Development Corps, and nationalization of forests were among the most important achievements during the Third Plan conducive to more equitable distribution of income. In addition to these, such complementary measures as the extension of education and health services and urban development activities to underprivileged regions were undertaken. In the pursuit of this objective, the development policy of the Fourth Plan is founded on the principle that in the distribution of social services, including primary and secondary education, medical and health services, and urban and rural development schemes, priority should be given to areas of the country which in these respects are less privileged, and that by means of comprehensive surveys related to agriculture and irrigation, evaluations are made of the opportunities for growth and development in such areas, and these opportunities exploited.

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EMPLOYMENT OBJECTIVES

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CHAPTER 4

GENERAL POLICIES OF THE FOURTH PLAN

INTRODUCTION

1 - In the preceding pages, the quantitative objectives of the Plan concerning the production of goods and services have been discussed. It must be noted, however, that the attainment of these objectives, apart from the allocations of investment funds as determined, requires the creation of a set of circumstances the cumulative effect of which would enable these objectives to be achieved without interfering with the economic equilibrium. These circumstances are summarized in this chapter as general economic policies to be implemented in conjunction with public and private sector investments, imports and exports, utilization of foreign loans, price stabilization and Government financial programmes, which will collectively ensure the co-ordination and equilibrium of the economy.

POLICIES CONCERNING INVESTMENT IN THE PUBLIC AND PRIVATE SECTORS

2 - A decision on whether investment by the public sector should increase or decrease in comparison with investment by the private sector depends, apart from political considerations, on numerous economic factors. In this era of economic and social change, in which the foundations for heavy industry and large-scale agriculture are being laid, and in which activity has started for the purpose of utilizing the country's resources for the production of various new industrial products of a more elaborate and sophisticated nature, the development activities of the Government cannot be limited to investments in infrastructure projects such as roads, airports, ports, power, telecommunications and education, because a number of agricultural and industrial projects require immense capital beyond the reach of a single individual or family under present circumstances, and the circumstances required for the establishment and exploitation of very large joint-stock companies with huge capital are only gradually coming into existence. The Government itself, therefore, must take the first step in establishing such large industrial and agricultural units. The establishment and management of certain basic industries of vital importance to the nation as well as those it is in the national interest for the Government to manage cannot be transferred to the private sector. Furthermore, private investors, because of their inexperience in technical matters, lack of information about or access to foreign markets, or fear of foreign competition, often do not dare to enter new branches of industry, and this forces the Government to play the pioneering role, especially when access to foreign markets and utilization of advanced technology necessitate participation with large foreign industrial concerns.

On the other hand, the profit motive in private investment is a basic stimulant in strengthening and nurturing individual talents and initiative and will direct private capital into fields needed by society. Therefore, in fields where the private sector is interested because of the profit involved, and where such enterprises are not against the public interest, the Government will not only give a free hand to the private sector for the maximum activity and exploitation, but will also help by providing the necessary technical and financial assistance, protection against foreign competition, access to foreign markets as well as by other means, provided that this policy does not result in a heavy burden on the domestic consumer.

3 - The agriculture sector in Iran differs substantially from other sectors of the country's economy in terms of the level of technology involved. As a result, the unit rate of return in this sector is very low in comparison with that of the advanced countries. Bridging this gap will require continued investment for improving techniques and ensuring their wide application in all related fields. Iranian farmers, however, at present lack sufficient savings to enable them to make these investments, and even if they did possess the required savings, the level of their knowledge in relation to present-day technology is such that they would be unable to use modern

methods of production and distribution. In the sphere of agriculture, efforts must therefore be made, both to channel existing resources at the village level, both financial and human, into production and to compensate for the lack of farmers' savings by public sector investments. This will be done partly by means of investments in the development of water resources, the construction of storage facilities and silos, the construction of feeder roads and the expansion of modern production techniques, and partly by compensating for the farmers' lack of working capital for the purchase of seed, fertilizers, and so on. Furthermore, in order to realize the target of agricultural growth, the Government will have to establish large agricultural units and provide incentives for the private sector to establish such units.

4 - In the past, the private sector has provided the major share in total industrial investment. This has been due to the nature of industrial investment, which has been largely within the framework of light consumer and construction industries where the levels of capital and technology required have been within the capabilities of Iran's private sector. The industrial sector, however, will in future be entering a new stage of evolution. The establishment of heavy industry, including the steel and petrochemical industries, requires immense capital and specialized advanced technology. Considering the problems that exist at present in the establishment of large private joint-stock companies and considering the opportunities the Government has to mobilize resources, import goods and employ the latest techniques of production, the Government must, at this stage of industrial growth, play a more active part and increase its share of investment in relation to its past performance.

5 - In the field of services the investment policy as regards education will be so provide maximum incentives for the private sector and to transfer responsibility for education to the public, particularly in the field of general secondary education, while investment by the public sector will be chiefly in activities where there is insufficient interest on the part of the private sector and in which the Government must assume the primary responsibility such as technical and vocational training, primary education and the literacy campaign. As regards medical services, the Government will endeavour to secure public participation to a greater extent than has hitherto been the case and gradually restrict itself to its basic responsibility for public health and environmental sanitation, especially in the rural areas. As regards social welfare services, the Government will be more active as regards specific handicapped groups of society, such as the physically, mentally and socially disabled, and will endeavour to channel private investment, which has hitherto been spent sporadically, haphazardly, without proper planning and mostly in the form of charity, into planned public welfare activities. In the field of social security services, particularly the application of insurance to all, the Government will devote greater efforts in the Fourth Plan and will take measures to extend such services to rural areas and the farming population. As regards other services (such as tourism, promotion of the arts and the preservation and propagation of culture), the Government will also make the necessary investments wherever the private sector is incapable of or disinterested in doing so.

6 - In pursuit of the foregoing development policies, during the period of the Fourth Plan the distribution of fixed investment in major sectors of the economy as between the public sector and the private sector is planned to be as follows:

TABLE 1 — FIXED INVESTMENT IN MAJOR SECTORS DURING THE FOURTH PLAN BY THE PUBLIC SECTOR AND THE PRIVATE SECTOR

	Public Sector	Private Sector	Total
Agriculture and animal husbandry	25.0	41.1	66.1
Industry and mining	86.7	120.3	207.0
Oil and gas	42.3	52.3 *	94.6
Water and power	98.4	1.2	99.6
Other sectors	191.1	151.6	342.7
Total	443.5	366.5	810.0
Percentage of total	54.7	45.3	100.0

* Fixed investments by the Oil Consortium and other foreign companies.

It should be noted that in the case of fixed investment in the agriculture and animal husbandry sector a major part, namely Rials 53.2 billion, of the fixed investment in water resources will be used to increase agricultural production, and that of the Rials 42.3 billion public sector fixed investment in the oil and gas sector, about Rials 24.8 billion will be for the exploitation of gas while the remaining Rials 17.5 billion will be invested in the oil industry by the National Iranian Oil Company.

7 - It should also be noted that the total figure of Rials 366.5 billion for private sector investment includes a transfer from Plan Organization credits to the private sector of about Rials 34.9 billion, through the specialized banks and in other ways. Also, out of the total figure for fixed investment by the public sector about Rials 63.3 billion will be invested directly by Government-owned profit-making enterprises and by municipalities.

TABLE 2 — SOURCES OF FIXED INVESTMENT DURING THE FOURTH PLAN

	Public Sector (1)	Private Sector (2)	Total (3) (1 + 2)
1. Plan Organization credits	380.2	34.9	415.1
2. Government profit-making and commercial enterprises and municipalities	63.3	—	63.3
3. Private resources	—	331.6	331.6
Total	443.5	366.5	810.0

EXPORT AND IMPORT POLICY

8 - The export policy of the Government during the Fourth Plan will be similar to that of the Third Plan, namely the diversification of export goods so as to ensure the country's transition from being an exporter of raw materials to being an exporter of finished products. Fluctuations in the price of agricultural raw materials in world markets, and the dangers of long-term dependence on oil revenues, call for a policy of gradually reducing Iran's dependence on the export of oil and agricultural raw materials. In view of the initiative that was taken towards the end of the Third Plan in utilizing the markets of the Eastern bloc and the establishment of huge export industries such as gas, aluminium and petrochemicals, it is envisaged that the total exports of the country, excluding oil, will increase from Rials 14 billion in 1346 to Rials 48.7 billion in 1351, an increase of almost 250 per cent, whereas reliance on the export of traditional items would only increase the value of such exports from Rials 14 billion to about Rials 17.5 billion.

Special efforts will also be made during the Fourth Plan to standardize and improve the quality of traditional export items in accordance with international specifications. Furthermore, the Export Promotion Centre will survey various ways in which exports can be increased by finding new markets and make its recommendations to the Government.

As regards the export of services, tourism is a field in which there is a great potential for attracting foreign tourists to Iran, both from western countries and from areas south of the Persian Gulf. Extensive measures will be taken during the Fourth Plan to provide the necessary facilities in accordance with the specific requirements of different types of tourist, and it is expected that as a result there will be a rapid increase in the country's foreign exchange earnings.

9 - As regards imports, the policy of import-substitution by means of domestic production will, in the first instance, be directed towards basic consumer goods and then to raw materials and capital goods. In accordance with the policy of encouraging savings and relatively limiting consumption, it will be necessary to expand domestic production to the extent related to the substitution of imports, only in regard to basic and essential items, in other words the present policy will, in general, be continued. With respect to the assembly industries, continued efforts will be made to increase the added value of domestic production in relation to the total value of the product. Efforts will also be made to supply a part of the increase in demand for imported services such as shipping, consulting engineering and tourism by means of expanding the domestic production

of such services. These principles will form the basis on which the annual export-import regulations are drawn up.

POLICY OF INCREASING FOREIGN EXCHANGE RESERVES

10 - The sustained growth of the economy and the expansion in the volume of foreign trade will necessitate a substantial increase in foreign exchange reserves during the Fourth Plan, so that on one hand they will be able to meet the growing demand for the import of goods and services, and on the other the sound policy which the Government has currently adopted to strengthen the foreign exchange position and eliminate any difference between the free market and official rates of exchange will continue. According to a forecast made in relation to the increase in the volume of foreign transactions, the foreign exchange reserves should be raised to a level of about $600 million by the end of the Fourth Plan. Bank Markazi Iran (the central bank) will therefore make provision for probable shortages of foreign exchange during the latter period of the Plan by means of increases in foreign exchange earnings which are expected to accrue to the country during the early part of the Fourth Plan (Table 3). Bank Markazi Iran will take the necessary measures to provide these foreign exchange reserves.

POLICY TOWARDS FOREIGN LOANS AND IMPORTS OF FOREIGN CAPITAL

11 - The attainment of the objectives of the Fourth Plan, in terms of providing adequate financial resources for a total investment of the magnitude of Rials 810 billion, maintaining a foreign exchange equilibrium, and increasing the foreign exchange reserves, will necessitate the utilization during the Plan period of a net amount of Rials 113.5 billion ($1,513 million) from foreign sources in the form of loans and imports of foreign capital. The public sector, in view of its financial commitments towards the repayment, during the Fourth Plan, of existing foreign development loans and in view of the fact that a portion of the development loans which will be utilized during the Fourth Plan period must be repaid in the same period, will have to borrow about Rials 150 billion ($2,000 million) from foreign sources. Since during the 1339-1345 period the Government utilized about $470 million of foreign loans, greater efforts will have to be made during the Fourth Plan to utilize foreign resources. The utilization of foreign resources on the part of the private sector during the same period will amount to almost $700 million: and Government policy for encouraging the import of private foreign capital is based on the prediction that this sector will import at least the same amount of capital (Table 3).

12 - In Tables 3, 4, 5 and 6 an approximate estimate of balance of payments and the country's foreign exchange balance are given, and these will serve as a general guide for the preparation of the annual foreign exchange budget.

PRICE STABILIZATION POLICY

13 - The preservation of relative price stability is for several reasons a basic condition for the attainment of the objectives of the Fourth Plan. The first reason is that a rapid increase in national income will only help to raise the standard of living of the population if it is accompanied by relative price stability, otherwise, as has been observed on several occasions, during periods of price increase, individuals receiving a salary or wages or any other type of fixed income are the losers. The second is that a sharp increase in prices, as has been experienced in recent times in Iran, will divert the resources of the country from the objectives of the Plan and will create a growth-simulated but false state of economic boom, which will eventually drag the country into economic recession and thus it will not be possible to achieve the objectives of balanced and sustained growth. The third is that sharp increases in prices will create a number of financial, organizational and social problems for the Government, whereas stable prices will motivate people to save, since they will be assured of the future value of money.

Fortunately, under the specific circumstances of Iran, the availability of substantial foreign exchange revenue to meet part of the increasing requirements for capital and consumer goods through imports enables the attainment of relatively rapid economic growth coupled with relative price stability. The successful experience of 1344 and after has been most valuable and unusual, not only for Iran but among all developing countries, and the continuation of this experience during the

TABLE 3 — FORECAST OF BALANCE OF PAYMENTS DURING THE FOURTH PLAN (MILLIONS OF DOLLARS)

	1347	1348	1349	1350	1351	Total
			i - Export of goods and services			
a - Goods	2,043.2	2,474.7	2,938.1	3,443.7	4,052.3	14,952.0
1 - Exports by oil sector (at posted prices)	1,850.9	2,220.1	2,602.9	2,987.2	3,402.8	13,063.9
2 - Other goods *	192.3	254.6	335.2	456.5	649.5	1,888.1
b - Services	126.9	133.3	140.0	147.1	158.7	702.0
1 - Ordinary services	109.2	114.7	120.4	126.4	132.7	603.4
2 - Investment revenue	17.7	18.6	19.6	20.7	22.0	98.6
Total (a + b)	2,170.1	2,608.0	3,078.1	3,590.8	4,207.0	15,654.0
			ii - Import of goods and services			
a - Goods	1,428.2	1,625.1	1,850.1	2,039.8	2,287.7	9,230.9
1 - Imports by oil sector	83.4	111.4	145.1	156.6	162.2	658.7
2 - Other goods	1,344.8	1,513.7	1,705.0	1,883.2	2,125.5	8,572.2
b - Services	1,023.2	1,219.6	1,432.0	1,671.9	1,956.5	7,303.2
1 - Ordinary services	260.4	299.5	344.4	396.1	455.5	1,755.9
2 - Investment revenue (including rebate to the Consortium)	762.8	920.1	1,087.6	1,275.8	1,501.0	5,547.3
Total (a + b)	2,451.4	2,844.7	3,282.1	3,711.7	4,244.2	16,534.1
(Reduction or increase in current account)	– 281.3	– 236.7	– 204.0	–120.9	–37.2	– 880.1

* Includes $600 million of petrochemical exports during the first and second stages during the Fourth Plan and $138.6 million of gas to be exported to the USSR.

(Table 3 cont.)

iii - Capital Account

	1347		1348		1349		1350		1351		Total	
	receipt	repayment	receipt	repayment	receipt	repayment	receipt	repayment	receipt	repayment	receipt	repayment
Loans and capital												
1 - Long-term loans	474.8	185.3	426.8	194.1	436.1	263.4	456.3	369.4	394.7	361.9	2,188.7	1,374.1
a - Plan Organization	338.7	64.0	384.0	74.7	405.3	139.6	456.0	247.5	394.7	239.5	1,978.7	765.3
b - Other Ministries and Government agencies	136.1	121.3	42.8	119.4	30.8	123.8	0.3	121.9	—	122.4	210.0	608.8
2 - Private capital	171.0	5.0	260.3	7.0	115.0	11.0	135.0	72.7	167.3	54.4	848.6	150.1
a - Participation in Phase 1 of petrochemical project	27.5	—	—	—	—	—	—	—	—	—	27.5	—
b - Participation in Phase 2 of petrochemical project	77.0	—	178.0	—	—	—	—	59.7	—	40.4	255.0	100.1
c - Oil & other	66.5	5.0	82.3	7.0	115.0	11.0	135.0	13.0	167.3	14.0	566.1	50.0
Total of loans and private capital	645.8	190.3	687.1	201.1	551.1	274.4	591.3	442.1	562.0	416.3	3,037.3	1,524.2
Net amount of loans and private capital	455.5	—	486.0	—	276.7	—	149.2	—	145.7	—	1,513.3	—
Increase in foreign exchange reserves	—	174.2	—	249.3	—	72.7	--	28.3	—	108.5	—	633.0

Fourth Plan will form the basic policy of the Government. By following sound financial, monetary and foreign exchange policies and controlling the supply of essential agricultural commodities, the production of which will probably undergo intense annual fluctuations, it is expected that relative price stability will be preserved. The underlying principles behind these policies are here summarized.

14 - Financial policy - Since the Government is the main consumer of goods and services, if its development and current expenditure increases disproportionately to its revenues, inflationary pressures would develop, as the Government would then either have to issue treasury bonds or other securities or utilize new bank credits, to meet its expenses. Of course, to the extent that such new bonds were purchased by the public, this would be a matter of transfering income from the private sector to the public sector and would not have any inflationary effects. Further utilization of these bonds, however, such as their sale to banks would lead to an increase in bank credits and would eventually

increase the volume of money in cirulation. As long as this increase in volume of cash were used for the production of additional goods and services within the economy it would not entail any long-term inflationary pressures. But if such credits were used to meet increased current expenditure or for productive activities of a type which require a considerable time to come to fruition, the volume of money within the economy would increase in the absence of a proportionate increase in the production of goods or services and consequently prices would increase. The financial programme of the Government, which will later be discussed in this chapter, has been formulated with due consideration for this principle.

15 - Foreign exchange policy – The country's general policy in this respect will be the preservation of foreign exchange balance, but since inflationary pressures and price increases will develop, in the first instance because of the increasing demand for goods and services which cannot be met wholly by domestic supply, to the extent that such demand can be satisfied through imports, price increases will be prevented. The adoption of such a policy, however, will be within the framework of the following conditions.

The revolutionary and far-reaching objectives of the Fourth Plan, in terms of the extremely rapid growth of production and income, will require investment of a large magnitude. Consequently, the demand for imports, particularly for capital goods, intermediary goods and

TABLE 4 — FORECAST OF FOREIGN EXCHANGE BALANCE DURING FOURTH PLAN
(MILLIONS OF DOLLARS)

	1347	1348	1349	1350	1351	Total Fourth Plan period
1 - Current revenue						
Oil	1,004.6	1,203.7	1,399.6	1,601.5	1,822.8	7,032.2
Other goods *	192.0	239.6	305.7	409.8	566.7	1,713.8
Services	126.9	133.3	140.0	147.1	154.7	702.0
Total	1,323.5	1,576.6	1,845.3	2,158.4	2,544.2	9,448.0
2 - Current payments						
Goods	1,344.8	1,513.7	1,705.0	1,883.2	2,125.5	8,572.2
Services	260.4	299.5	344.4	396.1	455.5	1,755.9
Total	1,605.2	1,813.2	2,049.4	2,279.3	2,581.0	10,328.1
Deficit	281.7	236.6	204.1	120.9	36.8	—880.1
3 - Loans and imports of capital						
Receipts **	645.8	687.1	551.1	591.3	562.0	3,037.3
Repayment (including interest)	190.3	201.1	274.4	442.1	416.3	1,524.2
Net loans and capital	455.5	486.0	276.7	149.2	145.7	1,513.3
Balance of current account and capital account for increasing foreign exchange reserves	174.2	249.3	72.7	28.3	108.5	633.0

* In the calculation of "other goods", $600 million of petrochemical exports and $74.5 million of aluminium exports have been included. ** Detailed figures are given in Table 5.

TABLE 5 — FORECAST OF IRAN'S FOREIGN EXCHANGE EARNINGS DURING THE FOURTH PLAN (MILLIONS OF DOLLARS)

	1347	1348	1349	1350	1351	Total
a - Goods Receipts from oil sector						
1 - Oil revenues from the Consortium	863.1	1,004.3	1,161.3	1,350.3	1,558.8	5,937.8
2 - N.I.O.C.	22.2	29.6	37.0	44.4	51.8	185.0
3 - Oil revenues from other oil companies	19.3	69.8	101.3	106.8	112.2	409.4
4 - Purchase of foreign exchange from the Consortium	80.0	80.0	80.0	80.0	80.0	400.0
5 - Purchase of foreign exchange from other oil companies	20.0	20.0	20.0	20.0	20.0	100.0
6 - Miscellaneous	—	—	—	—	—	—
Total receipts from oil sector	1,004.6	1,203.7	1,399.6	1,601.5	1,822.8	7,032.2
Receipts from other goods						
7 - Exports of other goods	192.0	207.2	216.3	225.4	233.5	1,074.4
8 - Exports of petrochemicals and aluminium after deduction of revenues of foreign companies	—	32.4	49.8	138.2	280.4	500.8
9 - Export of gas to USSR	—	—	39.6	46.2	52.8	138.6
b - Services						
1 - Revenue from services	109.2	114.7	120.4	126.4	132.7	603.4
2 - Revenue from investment	9.7	10.6	11.6	12.7	14.0	58.6
3 - Gifts and grants	8.0	8.0	8.0	8.0	8.0	40.0
Total revenue from exports of goods and services excluding oil	318.9	372.9	445.7	556.9	721.4	2,415.8
Total foreign exchange receipts (a + b)	1,323.5	1,576.6	1,845.3	2,158.4	2,544.2	9,448.0

raw materials, will increase rapidly. Although the long-term outlook for the country regarding foreign exchange revenues is also very bright, in view of the increase in the export of oil and other goods as well as opportunities to utilize foreign loans and capital, nevertheless, an absolutely open-door policy cannot be advocated, since the implementation of such a policy is in conflict with the country's long-term interests. Rather, these extensive resources will have to be utilized, in the first instance to satisfy the import requirements for capital goods, intermediate goods and those raw materials which cannot be produced domestically, as well as to import consumer goods for which there is demand but insufficient domestic production. These measures will be instrumental in preventing increases in the cost of living.

TABLE 6 — FORECAST OF IMPORTS OF GOODS AND SERVICES EXCLUDING OIL SECTOR DURING THE FOURTH PLAN
(MILLIONS OF DOLLARS)

	1347	1348	1349	1350	1351	Total Fourth Plan
1 - Capital goods	614.8	700.9	799.0	874.7	1,002.6	3,992.0
2 - Raw materials	355.4	405.6	462.6	526.3	599.0	2,348.9
3 - Consumer goods	374.6	407.2	443.4	482.2	523.9	2,231.3
4 - Services	260.4	299.5	344.4	396.1	455.5	1,755.9
Grand Total	1,605.2	1,813.2	2,049.4	2,279.3	2,581.0	10,328.1

With respect to luxury goods, the present policy, which calls for imposing relatively high taxes and customs duties on such items so as to reduce the demand for them and consequently to effect savings in foreign exchange expenditure and to conform to the policy of more equitable distribution of income, will be continued. Furthermore, the increase in the volume of trade during the Fourth Plan will necessitate the foreign exchange reserves of Bank Markazi Iran to be proportionately increased. An increase in the foreign exchange reserves by the end of the Fourth Plan of about $633 million is therefore contemplated (Tables 4, 5 and 6).

16 - The general and long-term monetary policy of the Government will be, as it has been, the preservation of the value of the country's money and control of bank credits in accordance with the requirements of the economy. These two policies should, however, be implemented with care and clear-sightedness during the Fourth Plan, lest it should possibly affect economic development activities, and result in a reduction of economic growth, national income and the development of an economic crisis. Each year, Bank Markazi Iran, on the basis of trends in economic activity and the country's financial, foreign exchange and credit state, will define the limits of credits and prepare the foreign exchange budget within the framework of the general policy concerning relative price-stability.

17 - In considering the control of supply and demand of basic agricultural commodities, the economy of developing countries, including Iran, is faced with two facts. On one hand, most people spend a substantial portion of the family budget on the purchase of essential foodstuffs and fluctuations in the price of such goods have a much greater effect on the cost of living in these countries than they do in the developed countries. On the other hand, the level of production of foodstuffs depends to a great extent on climatic conditions and price fluctuations. If effective measures are not taken with respect to the adjustment of supply and demand for these products, it will become difficult to meet the essential requirements of the population because of serious fluctuations in price and production, which will in turn upset the pattern of other economic activities.

Controlling the supply and price of essential agricultural commodities will be continued even more rigorously during the Fourth Plan by means of the construction of silos for the storage of main products and the stabilization of their price so that the farmers may devote themselves with complete confidence to the production of the products required and so that the consumer may also be able to acquire his basic requirements at any time and at reasonable prices.

THE GOVERNMENT'S FINANCIAL POLICIES AND PROGRAMMES

18 - The general financial framework of the Plan as related to total investment and saving (including both the public sector and the private sector) was dis-

cussed in Chapter Three and the general policy is discussed in this chapter. The Government's financial policies and programmes will now be propounded. Since the public sector's share of fixed investment is expected to amount to 54.7 per cent of total fixed investment in the country and in addition to fixed investment current Government expenditure, both of a development and a non-development nature, will also inevitably increase, the adoption of a strong financial policy so as to create sufficient resources and prevent financial disequilibrium is of paramount importance.

19 - Without doubt, the investment opportunities of the Government depend in the first place on the extent of its savings, in the second place on the extent of loans and credits it can obtain from abroad, and in the third place on the extent of its ability to mobilize private sector resources through the sale of treasury bonds and other Government securities. The extent of Government savings will in turn depend on the extent of the increase in general revenue in relation to the increase in current expenditure. The principles on which Government financial policy will be based are therefore as follows:

i. increasing revenue including revenue from oil, taxation and revenue from the sale of Government goods and services;

ii. agreeing on a maximum limit for the growth of general and current expenditure;

iii. utilizing foreign credits and loans to overcome the shortage of financial resources for development activities;

iv. utilizing private sector savings by a policy of offering optimum interest rates on treasury bonds and other Government securities.

20 - In the field of revenue the policy of the Government will be to achieve the following objectives:

i. total oil revenues during the Fourth Plan period will amount to Rials 486.6 billion, reaching Rials 129.2 billion in 1351;

ii. Government revenue from foreign trade in the form of customs and commercial duties and the difference between the rates for buying and selling foreign exchange depends on the volume of imports envisaged and will total Rials 125 billion;

iii. receipts from direct taxation during the Fourth Plan will amount to at least Rials 74 billion. Greater effort in improving the collection of taxes may increase this sources of revenue;

iv. receipts from indirect taxation during the Fourth Plan will amount to Rials 52 billion;

v. Government profit-making and commercial enterprises will contribute a total of about Rials 76 billion to general revenue during the Fourth Plan;

vi. revenue from Government services including the postal and telegraph services, the Foreign Ministry, the Police and other sources will amount to a total of Rials 25 billion.

21 - As regards expenditure, the objective is to prevent an annual increase in current Government expenditure of more than 10 per cent.

22 - As regards foreign loans and credits, altogether Rials 150 billion will be utilized from foreign sources.

23 - It is also expected that a net amount of Rials 46 billion of new treasury bonds and other Government securities will be issued, the proceeds of which will be used for capital expenditure and military installations. On the basis of these general principles, the Government's financial situation will be as shown in Tables 7, 8 and 9.

24 - Of the Rials 480 billion allocated in the budget of the Plan Organization during the Fourth Plan for new development expenditure (Table 10), approximately Rials 64.9 billion is for Fourth Plan current expenditure and Rials 415.7 billion is the cost of fixed investment, out of which Rials 380.9 billion will be invested by the public sector and Rials 34.9 billion by the private sector.

TABLE 7 — FORECAST OF THE GOVERNMENT'S FINANCIAL SITUATION DURING THE FOURTH PLAN (BILLIONS OF RIALS)

Receipts		Expenditure	
1 - Oil	487	1 - General and current expenditure(2)	410
2 - Foreign Trade	125	2 - Repayment of principal and interest on foreign loans	87
3 - Direct taxation	74	3 - Administrative and miscellaneous expenditure	5
4 - Indirect taxation	52	4 - Current and non-current development expenditure of the Fourth Plan(3)	530
5 - Contribution of profit-making and commercial enterprises	76	5 - Repayment of treasury bonds and other Government securities(4)	15
6 - Government services (1)	25	6 - Repayment of Bank Markazi Iran credits	13
7 - Miscellaneous (economies, etc.)	10		
8 - Foreign loans	150		
9 - Treasury bonds and other Government securities	61		
	1,060		1,060

TABLE 8 — REVENUE AND EXPENDITURE UNDER ORDINARY BUDGET OF THE GOVERNMENT DURING THE FOURTH PLAN (BILLIONS OF RIALS)

Revenue		Expenditure	
1 - 20 per cent of oil revenues	102	1 - Current expenditure out of general revenue, based on Rials 61 billion for 1346 and a maximum increase of 10 per cent per year	410
2 - Other revenue	331		
3 - Miscellaneous	6		
4 - Defence and treasury bonds	11	2 - Repayment of principal and interest on foreign loans	40
	450		450

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1. Including revenue from post and telegraph services, Foreign Ministry, Police, Registration of Documents, etc.

2. Based on Rials 61 billion in 1345 and a maximum increase of 10 per cent.

3. Including Rials 480 billion for development and new current projects under the Fourth Plan, 45 billion for current projects transferred to the Fourth Plan and Rials 5 billion for the gas transmission project.

4. Includes only repayments under the development budget. Those under the non-development budget are included in item 1 above.

TABLE 9 — REVENUE AND EXPENDITURE OF PLAN ORGANIZATION DURING THE FOURTH PLAN (BILLIONS OF RIALS)

Revenue		Expenditure	
1 - Oil revenues (based on 80 per cent share of Plan Organization)	385	1 - Development projects and new current expenditure of the Fourth Plan	480
2 - Foreign loans	150		
3 - Revenue from petrochemicals and gas		Current expenditure transferred from the Third Plan	45
Petrochemicals	11		
Gas	10	Expenditure on gas transmission project	5
4 - Treasury bonds and other Government securities	50	2 - Repayment of principal and interest on foreign loans (excluding petrochemical loans)	47
5 - Miscellaneous	4	3 - Repayment of treasury bonds	15
		4 - Repayment of credits Bank Markazi	13
		5 - Administrative and miscellaneous	5
	610		610

TABLE 10— ALLOCATION OF PLAN ORGANIZATION'S DEVELOPMENT BUDGET DURING THE FOURTH PLAN (BILLIONS OF RIALS)

	Plan Organization development budget	Fixed investment by the public sector	Current Expenditure in connection with items in Column 2	Fixed investment by the private sector out of Development Budget contribution
	1=2+3+4	2	3	4
1. Agriculture and animal hansbandry	65.0	24.0	20.0	21.0
2. Industry and mining	99.0	84.7	6.0	8.3
3. Gas and oil	26.3	26.3	—	—
4. Water	48.5	47.4	1.1	—
5. Power	38.0	36.3	1.7	—
6. Communications and transport	80.0	78.0	2.0	—
7. Telecommunications, television and radio	20.3	19.1	1.2	—
8. Rural development	9.1	8.1	—	1.0
9. Urban development	7.0	7.0	—	—
10. Construction and housing	23.0	20.1	—	2.9
11. Education	35.0	14.7	20.3	
12. Arts and culture	1.8	1.8	—	—
13. Tourism	3.8	3.6	0.2	—
14. Health and medical services	13.75	4.85	7.3	1.6
15. Social welfare	4.85	3.25	1.5	0.1
16. Statistics, research and regional development	4.6	1.0	3.6	—
Total	480.0	380.2	64.9	34.9